AD-A222 957

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BY THE COMPTROLLER GENERAL

Report To The Chairman, Senate Committee On Governmental Affairs

OF THE UNITED STATES

Compendium Of GAO's Views On The Cost Saving Proposals Of The Grace Commission

Vol. II - Individual Issue Analyses

Vol. I - AD-A 156 592

UNITED STATES
GENERAL ACCOUNTING OFFICE

GAO/OCG-85-1
FEBRUARY 19, 1985

PREFACE

This volume contains GAO's analyses of 581 individual issues and associated recommendations made by the President's Private Sector Survey on Cost Control (PPSSCC)--commonly known as the Grace Commission. The issues addressed touch aspects of federal program areas government-wide. Similar to the Volume I summary, GAO's detailed analyses of the issues in Volume II are presented in chapter form along subject matter lines (e.g., defense, human services and wage protection programs, etc.). Each chapter contains a capsulized discussion of GAO's views on the issues addressed by the PPSSCC followed by the analyses of the relevant individual issues. —> see next pg 8

While we organized our analyses of the PPSSCC's issues along broad subject matter lines, for ease of reference we also included an index as an appendix to the report. This index lists the page number for each PPSSCC issue we analyzed in alphabetical order by PPSSCC task force code number. For example, the index enables a reader interested in PPSSCC issue "Energy 7" to turn to page 645 for our analysis.

The PPSSCC also identified 190 issues on which we have not included analyses as part of this report. For these issues, we had insufficient information or had not performed the work necessary to offer an informed opinion on the issues' merits. These issues are identified in the index.

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CHAPTER 1

FEDERAL MANAGEMENT AND ADMINISTRATIVE SYSTEMS

The PPSSCC concluded that the most fundamental problem impeding successful federal government operations was the lack of effective overall management systems. It stated that these system weaknesses were the root cause of most of the specific program and other inefficiencies it identified in its various task force reports and hence the source of most of the savings potential. It further noted that federal program waste would be substantially eliminated if proper management systems were in place.

To help correct these management deficiencies the PPSSCC presented recommendations on 26 issues aimed at developing improvements in accounting systems, planning and budgeting processes, and the management of government-wide administrative functions. The ultimate objective of these recommendations was to provide the government with a sound management structure upon which more effective policy and operational decisions could be made. While the PPSSCC believed the issues it identified were crucial to improving overall management, it recognized that most of its recommendations did not lend themselves to quantification of savings.

GAO found most of the PPSSCC's management and administrative system issues to have overall merit. Specifically, GAO found overall merit in 23 of the 26 issues addressed in this chapter and questioned the merits of three issues. Of the 26 issues, 16 would require legislative action to fully implement.

FMS 1: ADMINISTRATION AND MANAGEMENT--
FUNCTIONS, METHODS, AND ORGANIZATION

I. PPSSCC ISSUE AND SAVINGS

"How can the overall management of government-wide administrative functions be strengthened?"

The PPSSCC projected no cost savings.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC found that no single department or agency is responsible for overall executive branch administrative direction and policy setting. Responsibilities for property, financial management, human resources, and ADP management are distributed among many agencies. The impact of this fragmentation, in the PPSSCC's view, is a "lack of attention focused on significant opportunities for cost reduction and management improvements."

The PPSSCC also found that reporting relationships between central agency staffs (OMB, OPM, GSA, Treasury) and their agency counterparts for administrative functions are generally ill-defined and that management information provided to the central agencies is incomplete. In addition, tenure in key management positions is short, resulting in a lack of management continuity.

The PPSSCC made six recommendations centered around establishing an Office of Federal Management (OFM) within the Executive Office of the President to provide centralized leadership and policy direction.

While GAO is not taking a position on the establishment of an Office of Federal Management, the PPSSCC's recommendations have merit because they raise important institutional issues about the central management agencies' capabilities to provide leadership to needed crosscutting management improvement initiatives. Individual federal agencies have primary responsibility for improving internal management, but the President and OMB also have a responsibility to provide guidance and support in crosscutting areas such as procurement, information management, and financial management. A GAO study of major management reforms undertaken during the 1970's (GAO/GGD-83-69) showed that the overall results of these reforms were sufficiently discouraging as to lead various experts to suggest that the problem of sustaining broad management improvement needs urgent attention.

Drawing on suggestions made by others and discussions with knowledgeable observers, GAO provided several options in its study report--without endorsing any of them--which ranged from accepting the current management improvement framework

to establishing a separate central organization to address management issues. Given the poor track record of centrally directed management reform initiatives, GAO believes more of the responsibility should be placed on individual agencies for improving their managerial capacities. Regarding whether an OFM should be established, sufficient information is not yet available on the outcome of current Administration management reform efforts. These efforts should be closely monitored to determine whether further institutional changes are required.

For those crosscutting issues within the province of the central agencies, GAO agrees that greater continuity is needed to sustain management reforms. The PPSSCC recommended that OFM (or OMB) officials be appointed for specific terms of office under contractual agreements of 5 years, or in the case of a chief financial officer, 15 years. GAO believes this recommendation deserves consideration. Since OMB was established in 1970, there have been eight deputy directors. Since 1981, there have been two associate directors for management. This turnover in key management positions exemplifies the need for greater continuity. GAO reserves judgment, however, on the PPSSCC recommendation that there should be specific officials designated for financial management, human resources, administration, management improvement, and budget and planning. Similarly, while there may be merit in establishing a senior financial officer position, GAO questions the need for the incumbent to be appointed in the same manner and with the same 15-year term as the Comptroller General. How many officials there are and what they should do might be left to the discretion of the OFM (or OMB) director and the President, given OFM's (OMB's) location in the Executive Office of the President.

GAO also questions the need for direct reporting of OPM and GSA to OFM as recommended by PPSSCC. OMB exercises considerable leverage (as presumably would an OFM) over these agencies through the budget process and direct participation in Presidential management initiatives. In addition, the Cabinet Council on Management and Administration provides policy guidance to all three agencies--in effect already establishing a clear working relationship. Subordinating OPM and GSA to an OFM might also make it more difficult to find qualified top managers for these two agencies.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC stated that, like OMB, OFM could be created by Executive Order of the President, while certain aspects of other recommendations would require statutory change. Actually, OMB's predecessor, the Bureau of the Budget, had been statutorily established and OMB itself was created in

1970 pursuant to Reorganization Plan No. 2. Recent amendments to the Reorganization Act provided that a reorganization plan would take effect only if, within 90 days, both the House and Senate pass a joint resolution approving the plan and the President signs the legislation into law. The President's authority to reorganize under that act, however, expired on December 31, 1984. Therefore, legislation would be required to establish OFM.

The Administration has taken no action to establish an OFM. However, the President's Reform 88 initiative, established in September 1982, has laid out a long-term agenda to reduce waste, fraud and abuse and to restructure federal management and administrative systems. In addition, annual management reviews conducted by OMB for the fiscal year 1985 and 1986 budgets have established agency-specific agendas. Agencies are preparing 5-year ADP plans and individual management improvement plans.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC did not provide an estimate of either the costs or the savings that would result from implementation of its federal management systems report recommendations. Substantial additional resources may be required for the OFM's augmented responsibilities which could be offset at least in part by savings from improved performance. GAO agrees with the PPSSCC, however, that these net savings cannot be quantified.

V. RELEVANT GAO REPORTS

GAO/GGD-83-69	Selected Government-Wide Management Improvement efforts--1970 to 1980 (Aug. 8, 1983)
Testimony	Improving the Management of the Federal Government, by William J. Anderson, Director, General Government Division, before the Subcommittee on Civil Service, Post Office and General Services, Senate Committee on Governmental Affairs. Sept. 19, 1984.

VI. GAO CONTACT

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JUSTICE 10: IMPROVEMENTS OF INSPECTOR GENERAL OPERATIONS

I. PPSSCC ISSUE AND SAVINGS

"Can the Offices of Inspectors General (IGs) be supported by administrative or legislative means to enhance their capacity to promote audit and management improvement systems throughout the Federal Government?

"Savings are not quantified for this issue, but can be expected to result from improved overall management and from reductions in fraud, waste, and abuse in the Federal Government."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

PPSSCC recommends that there be established "at a central level of Government an office responsible for coordinating the activities of IGs, providing technical assistance to them, as needed, and assuring that IG personnel and budget resources are adequate."

GAO believes there is no need for such an office. Presently, the President's Council on Integrity and Efficiency (PCIE) helps strengthen IG efforts by coordinating some activities and serving as a forum for the exchange of ideas. PPSSCC points out that "PCIE could effect essentially the same benefits that would be provided by such a centralized IG administrative organization or by a Chief Inspector General" but believes that PCIE "currently lacks sufficient support staff to provide an appropriate level of timely support to the administrative functions conducted by the IGs." GAO believes the need for additional coordination and support as suggested by PPSSCC should arise from the perceived needs of PCIE members.

GAO also believes that, depending on its powers, a "coordinating office" could be seen as affecting the IGs' independence. PPSSCC does not make clear what powers the office would have. PPSSCC points out that PCIE "has no authority to <u>direct</u> the activities of the individual IGs" but does not state if the coordinating office would be given the authority to "direct" IGs. GAO believes the IGs' independence would be affected if the coordinating office directed IG efforts.

GAO believes there is merit to PPSSCC recommendations that the executive branch (1) develop more joint training and exchange programs to improve IG effectiveness, (2) develop a means for exchanging the best IG management ideas with agencies without statutory IGs, and (3) maintain a central reference file of IG reports and findings for the use of all IGs. However, consideration should be given to how such initiatives would be implemented.

Currently PCIE has developed a "basic skills" inventory for federal auditors and recognizes the need to upgrade skills. Also, internal audit group heads and IGs actively participate in Intergovernmental Audit Forum activities. In addition, the executive order establishing PCIE also established a Coordinating Conference composed of the PCIE chairman and representatives of each executive agency not represented on PCIE. The Conference currently serves as a forum for sharing information with agencies without statutory IGs.

The IGs' role is not clearly defined in the PPSSCC recommendation that the executive branch "explore with the Congress the possibility of involving IGs in the lawmaking process so that new legislation contains appropriate audit and cost-monitoring provisions." The Inspector General Act of 1978 already provides that each IG shall "review existing and proposed legislation and regulations relating to programs and operations of [his/her agency] and . . . make recommendations in the semiannual reports . . . concerning the impact of such legislation or regulations on the economy and efficiency in the administration of programs and operations administered or financed by [his/her agency] or the prevention and detection of fraud and abuse in such programs and operations . . ." GAO believes that the IGs can sufficiently comment on existing and proposed legislation within the framework of the IG act.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

PPSSCC believes that its recommendation to establish an office responsible for coordinating the activities of the IGs "can be implemented under the existing authority of the President." GAO does not know if the office could be established under existing presidential authority because PPSSCC does not make clear what powers the office would have or where it would be located in the government.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

PPSSCC did not quantify savings for this issue but believes that "savings will accrue to the Government as a result of improved functioning of the IGs, which will result in further reductions in fraud, waste, and abuse."

V. RELEVANT GAO REPORTS

GAO/AFMD-84-78	Impact Of Administrative Budget Procedures On Independence Of Offices Of Inspector General (Sept. 26, 1984)

GAO/AFMD-84-38	Use Of Investigative Information By Inspectors General To Identify And Report Internal Control Weaknesses (Feb. 24, 1984)
AFMD-81-94	Examination Of The Effectiveness Of Statutory Offices Of Inspector General (Aug. 21, 1981)
FGMSD-80-39	GAO Findings On Federal Internal Audit --A Summary (May 27, 1980)

VI. GAO CONTACT

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R&D 4: IMPROVED MANAGEMENT OF RESOURCES IN FEDERAL RESEARCH LABORATORIES

I. PPSSCC ISSUE AND SAVINGS

"Can Federal research and development (R&D) costs be reduced by managing funds, personnel, facilities and equipment of Federal research laboratories more effectively?

Savings from improved resource management are estimated to be $153.0 million in the first year, $168.3 million in the second year, and $185.1 million in the third year for three-year total savings of $506.4 million."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC discussion of the need to improve the quality and productivity of work done by federal laboratories is the latest in a series of reports issued on federal laboratories. The 1983 "Packard Report," issued by the White House Science Council, made a number of similar recommendations covering all federal laboratories. The laboratories, listed as 755 by the Office of Science and Technology Policy, account for about one-third of the federal government's expenditures for research and development--more than $15 billion in fiscal year 1984.

The PPSSCC makes seven recommendations beginning with periodic reviews of all federal laboratories accompanied by a study of opportunities for consolidation of labs and the creation of more "centers of excellence." This concept is defined as "the concentration of efforts to pursue research in a given area and centrally locate the resources to perform that research." PPSSCC also recommends more latitude in the areas of budget and personnel for lab management and suggests a better definition of what constitutes a laboratory. Its final recommendation would remove the exemption of R&D from OMB Circular A-76, which requires cost comparisons of work done by the private and public sectors.

In general, GAO supports the improved management of federal labs but would suggest more attention to other management issues such as the utilization of research equipment and internal controls over property management. Past GAO reports on federal laboratories have made recommendations in each of these areas.

The first recommendation to form an evaluation team periodically examining all federal labs has not been specifically addressed by GAO work. In the case of individual agencies, such as the Environmental Protection Agency, GAO has recommended that intramural research proposals receive

the same rigorous evaluation through peer review as extramural research (GAO/CED-81-124; January 14, 1981). One alternative to forming a new, centralized evaluation team would be to examine whether current review mechanisms could be improved.

The two PPSSCC recommendations to study opportunities for consolidation and create new centers of excellence can be viewed as an attempt to better clarify the roles and responsibilities of Federal labs. GAO work at several agencies has addressed this issue in two ways: first, in calling for better integration of labs with parent agencies in the planning process and second, by recommending the careful assessment of the work done by existing labs before commitment to further expansion of either facilities or of roles and responsibilities. GAO has recommended consolidation in the case of laboratories performing agricultural research, stating that this would encourage greater interaction between scientists and more efficient use of equipment, facilities and administrative resources. Recognizing that consolidation is politically difficult, GAO recommended that any plan drawn up by the Secretary of Agriculture would need to be reviewed by appropriate Congressional committees (GAO/RCED-84-30; January 16, 1984).

GAO's past work in research administration and financial management supports the fourth recommendation for flexibility for lab managers in shifting funds among specified budget categories, provided that appropriate procedures are in place to ensure accountability. A recent GAO report on problems in attracting engineers and others in occupations characterized by shortages or areas of high pay to the federal government would tend to support the fifth recommendation for more flexibility in pay and personnel systems affecting scientists and engineers (GAO/GGD-84-54; March 30, 1984). Better definition of federal laboratories as a basis for a new inventory of such facilities might assist GAO and others in evaluating the activities of federal labs. In work undertaken to assess compliance of federal laboratories with Section XI of the Stevenson-Wydler Act, GAO found the task of data collection complicated by different ways in which agencies define the term "laboratory".

GAO has not studied the issue of whether R&D should be covered by OMB Circular A-76 and has no position on it.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO does not fully agree with PPSSCC's assessment of the authority needed to implement its recommendations. PPSSCC identifies the first three recommendations (forming additional centers of excellence as well as a laboratory

evaluation team and initiating a study of consolidation) as requiring action by the agencies. Congressional action is listed as necessary for implementing the last four recommendations (increasing the control of lab directors over the use of funds, establishing a new personnel system for scientists and engineers, better defining what constitutes a laboratory and removing the exemption of R&D from A-76). Although executive action is listed for the first three recommendations, congressional approval may be needed for the creation of additional "centers of excellence" to the extent that the creation of centers of excellence occur through the elimination of facilities which Congress has specifically authorized or for which funds have been specifically appropriated. The first two of the last four recommendations (giving lab directors more control over use of funds and establishing a new personnel system for scientists and engineers) can be implemented through combined executive and legislative action. The final two recommendations (improving the definition of laboratories and removing the exemption of R&D from A-76) can be implemented by the executive branch without Congressional approval.

Several PPSSCC recommendations overlap with those made in the Packard report which is now being implemented by the executive branch and therefore are not likely to receive separate attention. According to OMB and OSTP staff, implementation of the 1983 Packard report addresses the thrust of the PPSSCC recommendations. This report, based on interviews and past studies of federal laboratories, including eight GAO reports, makes 16 recommendations in the areas of mission, personnel, funding, management and interaction with universities, industry and users of research results.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

In estimating three-year savings of $506.4 million, PPSSCC attributes $337.6 million of this figure to improved productivity and $168.8 million to increased use of A-76. GAO cannot evaluate PPSSCC's estimate of $337.6 million in savings since PPSSCC does not identify which recommendation would lead to such savings.

PPSSCC estimates that removal of the current exemption of Government R&D from application of OMB Circular A-76 would conservatively allow 5 percent of the current laboratory in-house budget to be contracted out. A 10 percent savings on the contracted-out work would then be realized. Since PPSSCC does not show the basis for the percentages used to estimate savings, GAO is unable to evaluate these cost savings.

V. LIST OF RELEVANT GAO REPORTS

GAO/RCED-84-30	A Long-Term Plan Is Needed To Guide DOE and Multi-Program Laboratory Research and Development Activities (Jan. 16, 1984)
Testimony	Before the Subcommittee on Department Operations, Research and Foreign Agriculture, House Committee on Agriculture At Oversight Hearings on Agricultural Research, (June 22, 1983)
GAO/AFMD-83-38	Internal Control Weaknesses at Department of Energy Research Laboratories (Dec. 15, 1982)
GAO/PSAD-79-97	Interagency Laboratory Use: Current Practices and Recurring Problems (Sept. 4, 1979)
GAO/EMD-78-62	The Multiprogram Laboratories: A National Resource for Nonnuclear Energy Research, Development and Demonstration (May 22, 1978)

VI. GAO CONTACT

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R&D 5: ADMINISTRATION OF RESEARCH GRANTS TO UNIVERSITIES

I. PPSSCC ISSUE AND SAVINGS

"Can changes in the manner in which the federal government administers research grants to universities: (a) improve government-university relationships; (b) control the increases that have occurred in indirect cost reimbursement; and (c) provide an improved framework for grant administration."

PPSSCC estimates that revision in the negotiating principles for indirect cost reimbursement and revised grant administration procedures should result in savings opportunities of $117.2 million in the first year, $128.9 million in the second year, and $141.8 million in the third year. Total estimated savings opportunities over three years are $387.9 million.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The federal mechanisms for supporting university research have evolved over the past 40 years. Various aspects of these mechanisms (e.g. time and effort reporting and indirect cost rates) have been at the heart of many controversies between universities and the government for over 10 years. GAO believes PPSSCC has properly identified these topics as needing attention. PPSSCC dealt with the issue of university administration of all federal research grants in R&D 5, and with the administration by the National Institutes of Health of its extramural research program in HHS-PHS 1. (See GAO analysis of HHS-PHS 1.)

GAO generally agrees with PPSSCC recommendations relating to its past work but cannot comment on the third recommendation. This recommendation would have OMB develop an optional simplified method for determining indirect cost rates for institutions receiving less than $10 million a year. PPSSCC's first recommendation to fix the administrative component of indirect cost recovery rates may well relieve the universities of a large administrative burden. GAO has recommended that there be a fixed rate for departmental administration (the largest category of indirect costs) (GAO/HRD-84-3). GAO also agrees with PPSSCC's second recommendation, that agencies implement new funding mechanisms and grant administration procedures--i.e. a wider adoption of the National Science Foundation (NSF) change (which allows universities to selectively pool budgets of awarded grants and reallocate funds among particular budget categories-GAO/PAD-82-7), and greater use of multiyear funding.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with PPSSCC that all of the recommendations can be implemented by executive action except in those instances where agencies need legislation to implement multiyear funding. An Office of Science and Technology Policy staffer believes that the issue of research grant administration is already being adequately addressed by a subcommittee of the White House Science Council. A subcommittee report expected to be issued this year will treat issues related to indirect costs as part of an overall study of government support for universities. OMB staff also noted that agencies have begun their own initiatives in improving administration of research grants. The Department of Health and Human Services and the Department of Defense have participated in a limited experiment at two institutions where the departmental administration component of indirect costs have been fixed for several years and the requirement for faculty time and effort reporting has been dropped.

With regard to the second recommendation, the Public Health Service (PHS) has begun a limited experiment in grant administration giving 36 universities some of the same responsibilities for post-award project budget changes as in the NSF system. The PHS experiment began in spring 1984 and will be completed by the end of 1985.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

While PPSSCC estimates total three-year savings of $387.9 million to this issue, $325 million are attributable to the recommendation which would modify the handling of indirect costs. The PPSSCC report assumes that a fixed indirect cost rate will reduce the administrative components of indirect costs by 3 percent. Although some savings would occur due to the resulting administrative simplification for the universities, GAO has no basis to agree or disagree with the 3 percent savings assumption. However, GAO found two mathematical errors in computation in the PPSSCC report, which resulted in overstating the savings. First, the report uses the entire indirect cost rate (43.6%) in figuring the savings amount, although the 3% savings only pertains to the three administrative components of the indirect cost rate (24.8/43.6 of the direct cost pool). Second, PPSSCC multiplied the total research expenditures by the fraction of direct costs (1/1.436) rather than the correct fraction of indirect costs .436/1.436. Therefore, if the report's other assumptions are correct, the savings would instead be about $80.4 million over three years.

V. RELEVANT GAO REPORTS

GAO/HRD-84-3	Assuring Reasonableness of Rising Indirect Costs on NIH Research Grants--A Difficult Problem (Mar. 16, 1984)
GAO/PAD-82-7	NSF Experiment in Research Grant Administration Promising--Changes Needed to Assure Accountability (Sept. 10, 1982)

VI. GAO CONTACT

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R&D 3: PRIVATIZATION

I. PPSSCC ISSUE AND SAVINGS

"Can cost savings be realized if the government privatizes certain federal research and development (R&D) undertakings?

The federal government has a recognized role to play in supporting R&D in the United States, but areas exist where transfer of R&D responsibilities would generate cost savings and strengthen R&D capabilities."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC R&D task force expands the definition of privatization used by its Privatization task force. According to the latter, "privatization in a literal sense, means to turn over an activity, or part of an activity, currently performed by the Federal Government to a non-Federal entity." The R&D task force states that it carries the concept of privatization even further. It believes that by creating an environment that reduces the level of risk in R&D investments, the Federal Government can stimulate increased R&D activity in areas normally avoided by the private sector. PPSSCC makes three recommendations to accomplish the privatization of R&D: transfer by Federal agencies of the production of R&D goods and services to non-federal entities; assessment by federal agencies of R&D activities that either compete with the private sector or are not worthy of federal sponsorship; and increasing private sector participation in high-risk, long-term projects by use of the R&D tax credit, the R&D joint venture and R&D limited partnerships. The R&D tax credit now allows companies a tax credit of 25 percent of incremental R&D expenditures but is due to expire in 1985. Both limited partnerships and joint venture would allow companies to jointly support R&D.

GAO reviews of agency research programs have supported a clear delineation of the respective roles and responsibilities of the public and private sectors in research and development. Such a delineation is implicit in the PPSSCC's first two recommendations. A 1981 GAO report on the electric utility industry noted that divestiture by the federal government of R&D activities should occur only after a careful assessment of the industry involved or of individual projects. This report stated that a cancellation of R&D efforts on any other basis can result in commercialization of promising technology being delayed or lost. Past GAO work would support the third recommendation to increase private sector participation in certain types of R&D. Cooperative efforts between the private sector and Government in R&D is a means to defray costs as well as reduce barriers to

the use of research results by firms. Recent GAO testimony however, raises questions about the expansion of R&D tax credits one of the three mechanisms listed. Although expenditures for research and experimentation have increased since enactment of the tax credit, it is not clear how much of the increase is attributable to the credit.

III. GAO ASSESSMENT OF IMPLEMENTATION, AUTHORITY, FEASIBILITY, AND STATUS

PPSSCC states that implementation can be undertaken at the agency level and through existing statutory and administrative authority (e.g., Stevenson-Wydler Act and OMB Circular A-76). While PPSSCC correctly identifies the Stevenson-Wydler Act as an example of existing authority which can increase the flow of technology from the Federal to the non-Federal sector, OMB Circular A-76 does not currently cover R&D in its requirement for cost comparisons between the public and private sectors. In addition, GAO believes that congressional approval would be necessary for privatization through divestiture as well as through "indirect" mechanisms, particularly limited partnerships, constrained by antitrust considerations, and for the R&D tax credit which was established by the Economic Recovery Tax Act (ERTA) of 1981.

The Administration has already taken actions to divest the Federal Government of a number of R&D activities as well as to promote a number of mechanisms which PPSSCC claims would create "indirect" privatization. The President's Science Advisor has described the philosophy behind the Administration's actions as one of continued support of basic research with a concurrent reduction of support for demonstration, development and applied research projects viewed as more appropriate for the private sector. Administration attempts to implement privatization through the budget process experienced less than complete success due to Congressional opposition. For example, according to a AAAS[1] analysis of the FY 1984 budget, the 98th Congress has restored cuts requested by the Administration in a number of civilian agencies. The Administration had argued that the private sector could support these programs. Included were R&D efforts in the National Bureau of Standards, the National Oceanic and Atmospheric Administration, the Department of the Interior and the Environmental Protection Agency, as well as the non-nuclear programs of the Department of Energy. In such instances as solar energy, the

[1]American Association for the Advancement of Science

legislation or accompanying reports included language stating explicitly that Congress believes a federal role is both appropriate and necessary.

Executive action in support of indirect privatization includes promotion of limited partnerships by the Department of Commerce; and an administration bill to reduce obstacles to joint industrial R&D programs entitled the National Cooperative Research Act of 1984 and just signed by the President.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

PPSSCC does not quantify any savings which may be realized by privatizing R&D. It does, however, illustrate the savings potential from privatization of R&D by listing savings identified by other task forces.

For more specific analyses of the validity of the cost savings attributed to each case, see GAO discussions of the National Fertilizer Development Center (BUS-TVA 7), the Cooperative State Research Service (AG 54), privatization of certain DOE projects (DOE 11), and the fifth space shuttle orbiter (PRIVATE 3).

V. RELEVANT GAO REPORTS

GAO/RCED-84-60	Federal Agencies' Actions To Implement Section XI of The Stevenson-Wydler Technology Innovation Act of 1980 (Aug. 24, 1984)
GAO/EMD-81-145	Analysis of Federal Funding for Electric Utility R&D Projects (Sept. 28, 1981)
GAO/FGMSD-80-32	U.S. Must Spend More to Maintain Lead In Space Technology (Jan. 31, 1980)
Testimony	Use and Effectiveness of the Research and Experimentation Tax Credit by Johnny Finch, General Government Division, before the Subcommittee on Oversight, House Committee on Ways and Means (Aug. 2, 1984)

VI. GAO CONTACT

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ASSET 35: GOVERNMENT TRAINING PROGRAM

I. PPSSCC ISSUE AND SAVINGS

"Should the Office of Personnel Management (OPM) provide acencies and departments with improved financial asset management training programs?"

"If Implemented such programs would positively effect the overall federal government's financial management operation."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATION

GAO believes that agencies, with the assistance of OPM and the Joint Financial Management Improvement Program, should develop financial management training programs for their personnel, and, hence, GAO agrees with the proposals set forth by PPSSCC. Developing adequate financial management training programs will help improve the financial operations of the government.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The recommendation set forth by PPSSCC is feasible and can be implemented through administrative action by OPM and the agencies. For fiscal year 1985, OPM is offering a wide variety of courses related to financial management. These courses are offered throughout the year and cover subject areas such as:

--automated accounting systems,

--budget presentation and justification,

--budget execution,

--introduction to cost accounting, and

--introduction to financial management.

GAO believes agencies should be aware of these courses, and others that are sponsored by other governmental and private organizations, to ensure that agency employees are properly trained to perform the duties and responsibilities they are assigned. However, it must be realized that agencies may require additional funds to ensure their employees receive appropriate training.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC did not attribute specific savings to this issue.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

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ASSET 25: CREDIT ELSEWHERE/CREDIT WORTHINESS

I. PPSSCC ISSUE AND SAVINGS

"Should credit elsewhere and credit worthiness tests be implemented and audited in all federal guarantee programs?"

"Such implementation would result in reduced costs/ outlays for disbursements for guarantee claims since borrowers with little reasonable prospects for repayment would not receive government guarantees." PPSSCC did not estimate specific savings for this issue.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATION

PSSCC's recommendations would require agencies to develop credit standards to ascertain if

--applicants for federal guarantee loans are financially capable of securing credit elsewhere without the guarantee, and

--applicants for federal guarantee loans have the financial resource to repay the loan.

Although GAO has not previously ascertained if "credit elsewhere" and "credit worthiness" test should be implemented in all federal guarantee programs, it believes that the development and use of such test would help reduce the amount of debits owed the government. Many of the initiatives that OMB has underway in the credit management area could be used in the various guarantee programs and should help address the concerns raised by PPSSCC.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO believes, that for most programs, the PPSSCC recommendations can be implemented through administrative action, and they are feasible. However, since the government is lender of last resort, there may be some federal guarantee loans for which legislative action is necessary in order to develop credit worthiness tests.

GAO's report "Significant Improvements Seen In Efforts To Collect Debts Owed The Federal Government" points out that OMB has acted to ensure that federal managers place high priority in the near future on improving their debt collection systems. In addition, OMB has divided credit processing into five areas:

--credit standards, write-off policy, and risk analysis;

--credit approval;

--account management;

--collections; and

--portfolio sales.

These areas were assigned to one or more lead agencies. Lead agency responsibilities for these new efforts include designing a pilot project and developing a work plan with milestones and target dates.

In the area of credit standards, write-off policy, and risk analysis, lead agency responsibility has been assigned to Treasury. This area includes the development of uniform standards for extending credit and writing off bad debts, as well as innovative risk analysis and credit accounting procedures. Successful completion of the project should help address the concerns raised by PPSSCC.

IV. GAO ANALYSIS OF SAVING ESTIMATE

PPSSCC did not attribute specific savings to this issue.

V. RELEVANT GAO REPORTS

GAO/AFMD 83-57 Significant Improvements Seen In Efforts To Collect Debts Owed The Federal Government (Apr. 28, 1983)

VI. GAO CONTACT

John Simonette 275-9489

ASSET 17: SUNSET LEGISLATION

I. PPSSCC ISSUE AND SAVING

"Should sunset legislation be made to apply to direct federal lending programs? Sunset legislation establishes a termination date at which time appropriations would cease. Because it is not possible to predict what loan programs may be eliminated using this technique, PPSSCC did not calculate a potential saving for this issue."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

PPSSCC recommended that legislation be introduced requiring that all federal credit programs, both existing and any newly enacted ones, be subject to a sunset provision whereby the program would automatically expire at the end of 5 years unless specifically renewed. GAO agrees with the basic intent of the PPSSCC recommendation. However, GAO does not believe that it would be appropriate to establish sunset legislation for all direct lending programs because some programs are servicing a viable need that will always be present.

Sunset provisions generally provide for periodic analysis of government programs to determine if the objectives of the program have been achieved or if the government needs to continue the programs. When viewed as a means to establish a systematic and thorough legislative review, sunset provisions can have a beneficial effect by providing greater congressional oversight of government activities and policy making. However, when viewed solely as a process to reduce government size and spending, the costs of sunset reviews could outweight their benefits.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO and PPSSCC agree that congressional action would be necessary to implement the recommendations. In September 1983 in testimony before the Senate Committee on Finance, GAO recommended a sunset provision be included in the "First Time Homebuyers Assistance Act of 1983." Some federal direct lending programs are currently serving a viable need, such as those administered by the Veterans Administration, and this need will always be present. While GAO recognizes that in some instances enactment of sunset review legislation would assist the Congress in establishing a systematic approach to examining the need to continue specific lending programs, such legislation could also be a considerable burden on the Congress and may not be appropriate for all programs.

IV. GAO ANALYSIS OF SAVING ESTIMATE

GAO agrees with PPSSCC that it is impractical to project saving based on implementing this recommendation.

V. RELEVANT GAO REPORTS

Testimony <u>First Time Homebuyers Assistance Act of 1983</u>, by J. Dexter Peach, Resources, Community, and Economic Development Division, before the Senate Committee on Finance (Sept. 13, 1983)

VI. GAO CONTACT

John Simonette 275-9489

R&D 6: RESEARCH PROGRAM REPORTING

I. PPSSCC ISSUE AND SAVINGS

Can unnecessary research project redundancy be reduced by use of an automated central data file as part of the research and development (R&D) project initiation and ongoing management?

PPSSCC estimates that implementation of a centralized data base containing records of all non-classified, federally funded, completed and ongoing R&D projects will reduce unnecessary program redundancy in basic and applied research by a minimum of 0.5 percent in the second year and by 1.0 percent in the third year. According to PPSSCC, this will result in net savings of $71 million in the second year and $158.5 million in the third year. PPSSCC lists $4.0 million in start-up costs and then estimates three-year total net savings to be $225.5 million.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

To support its case for the need to use a central data file on R&D projects, PPSSCC cites four examples of duplication including the conduct of parallel research on genetic engineering by agencies not consulting with each other. PPSSCC then makes four recommendations: expansion of the National Technical Information Service (NTIS) data base in order to provide ready access to all unclassified, new, ongoing, and completed federally funded R&D. Mandatory contribution to and use of the data base by federal agencies, a requirement that contractors and grantees supply material for the data base and assurance by agency sponsors of R&D that new projects will not duplicate past or present research.

While GAO has supported the use of data bases to avoid project duplication and the need to better manage scientific and technical information activities, it is not clear that further centralization of scientific information is preferable to alternatives such as a network of decentralized data bases. According to an October 1984 GAO report entitled "Outlook for Expanding the Federal Research in Progress System", adequate information to determine which is the better choice does not now exist.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

PPSSCC states that implementation can be accomplished by the agencies involved. However, GAO believes that legislative approval may be needed for increased appropriations to assist agencies in defraying the costs of participation.

The system proposed by the PPSSCC could only work if the data base were well promoted to R&D managers. A central data base depends on the quality of input which is controlled by R&D managers. To include all the information necessary to allow automated matching of projects would require very careful abstract writing, highly detailed thesaurus and dictionary guidelines, and a great deal of data collection.

GAO believes that the administration of such an information system and the maintenance of data quality are likely to be difficult for NTIS, which is required to be self-supporting and has no administrative authority over other agencies. Without a strong central authority, it would be difficult to get timely and accurate information from the over 30 agencies which fund R&D projects. Furthermore, a number of these agencies would need funding to develop the reporting capability required, and to pay increased operating costs.

An OSTP staff member told GAO that while there is a need for a more comprehensive data base, the current diversity of information systems should not be eliminated. The staff member also noted that the PPSSCC recommendations would be costly to implement. OMB staff said that efforts are already underway to improve and expand the current R&D data base.

IV. GAO ANALYSIS OF SAVINGS ESTIMATES

PPSSCC assumes that no savings will occur in the first year and that a start-up cost of $4.0 million in the first year would result from the development of a standardized renorting format and method for all agencies and contractor involved. Subsequent annual operating costs are estimated to be $2.0 million. PPSSCC then assumes that the level of unwarranted redundant R&D that can be eliminated in the second year of implementation represents 0.5 percent of the total estimated Federal basic and applied research for FY 1983 ($13.3 billion). This percentage is assumed to increase to 1.0 percent by the third year.

GAO believes that these estimates underestimate costs and overestimate savings. It is not clear whether the start-up and subsequent operating costs are for NTIS only or include agencies with R&D budgets. The percentages used to calculate savings are based on undocumented assertions about the amount of "unwarranted redundancy." Also, since DOD does not report to the Federal Research In Progress System,

its portion of the research budget (about 65 percent) should be subtracted from the base to which the percentage is applied.

V. RELEVANT GAO REPORTS

GAO/RCED-85-15	Outlook for Expanding the Federal Research in Progress System (Oct. 22, 1984)
GAO/NSIAD-83-67	ACDA's Coordination of Federal Arms Control Research and Management of Its External Research Program Still Need Improvement (Sept. 30, 1983)
GAO/CED-82-46	Better Ways to Provide for Use of Agricultural Information (Feb. 26, 1982)
GAO/PSAD-79-62	Better Information Management Policies Needed: A Study of Scientific and Technical Services (Aug. 6, 1979)

VI. GAO CONTACT

Herbert McLure 275-7783

CONG 5: LINE ITEM VETO AUTHORITY

I. PPSSCC ISSUE AND SAVINGS

Citing broad public support and a successful track record in 43 states, PPSSCC recommends institution of item veto authority over appropriations acts. While PPSSCC makes no estimate of the dollar value of its recommendation it asserts a general "favorable impact on cost reduction and productivity programs." This overall benefit would be achieved because item veto authority would: 1) curtail wasteful spending induced by legislative riders on appropriations acts, and 2) free Executive Branch agencies from the need to observe informal nonbinding requirements expressed by congressional committees by removing the threat of their enforcement through a legislative rider on the agency's appropriation act.

Congress would exercise legislative authority by overriding item vetoes, thereby preserving, according to PPSSCC, the balance of power. In fact PPSSCC comments that such practice would conform more closely with the original intent of the Constitution's drafters. PPSSCC also suggests that a grant of item veto power could be accomplished by simple legislation.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATION

In recent testimony before the House Rules Committee, GAO expressed general opposition to a line item veto on separation of powers grounds. Before GAO can comment substantively on a particular item veto proposal, it needs precise information on the scope and use of veto authority. The exact nature of veto authority that PPSSCC recommends be secured is unclear in its statement. It naturally includes authority to veto the final dollar figures in appropriations acts, but it is not clear whether it includes authority to reduce those figures pending override. Apparently it also includes authority to strike provisions in the law which do not provide any money, but instead authorize activity or place conditions on spending.

PPSSCC's practical discussion of the item veto authority is mostly confined to eliminacing the perceived problems caused by legislative riders on appropriations bills, but it seems that the main feature of

item veto authority is the power to reject the dollar figures stated in appropriations acts. PPSSCC, however, does not mention the existing statutory procedure for preventing unnecessary or inappropriate spending. The Impoundment Control Act of 1974 provides a cooperative framework for postponing untimely expenditures and cancelling excessive ones. The Act prescribes the specific roles of the President and the Congress in arriving at these spending reduction decisions. GAO's view is that the Act was not affected by the Supreme Court decision on legislative vetoes. At a minimum, PPSSCC needs to identify the extent to which the benefits of its recommendation exceed the benefits which are now achieved under the Impoundment Control Act procedures.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO disagrees wih PPSSCC's opinion that item veto authority could be instituted by simple legislation. GAO has long taken the position that if an item veto were to be established it should only be by authority of a constitutional amendment. Irrespective of historical arguments about the original concept of a "bill" or about the early practice of legislative drafting, the Constitution itself contains no authority for the President to approve or reject a bill in part. Even if this were not the case, however, creation of an item veto (particularly of the sweeping type that PPSSCC apparently recommends) would substantially shift power in the legislative process. Whether the shift would "restore the balance of power," as PPSSCC asserts, or forfeit legislative prerogatives, as opponents would argue, it would profoundly change the relationship between the Executive and Legislative Branches. As a policy matter, such a truly significant change should only be accomplished by the most deliberate means available, a constitutional amendment.

We agree that certain benefits of economy could likely be derived from a line item veto, but we also note the possibility of its abuse, for example, to "discipline recalcitrant congressmen by eliminating funds for their districts." To maximize the constructive use of the veto, we had recommended as the most appropriate procedure for its institution, "a constitutional amendment authorizing Congress to legislate on this subject, thereby reserving to the Congress a means of attaching detailed and specific safeguards and restrictions upon the power." We still feel that would be the optimum approach to creating an item veto if it were deemed to be desirable to do so.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

PPSSCC did not make any estimate of the cost savings that would result from this issue. However, the use of the item veto would probably result in some reduction of expenditures. How much would depend on the frequency of use, the subjects of its use and Congress' ability to override.

V. RELEVANT GAO REPORTS

Testimony	Impoundment of Appropriated Funds by the President, by Elmer B. Staats, Comptroller General, before the Senate Committees on Government Operations and on the Judiciary (Jan. 30, 1973)
Testimony	Impact of Chadha on the Impoundment Control Act of 1974, by Milton J. Socolar, Special Assistant to the Comptroller General, before the House Rules Committee (Mar. 1, 1984)

VI. GAO CONTACT

Harry R. Van Cleve 275-5207

ASSET 34: GOVERNMENT-WIDE STANDARD FINANCIAL AND ACCOUNTING MANAGEMENT SYSTEMS

I. PPSSCC ISSUE AND SAVINGS

"Should the Department of the Treasury take the lead in developing a government-wide, standard financial and accounting system?" Recommendations relating to the need to upgrade and integrate financial management systems are included in the Federal Management Process Task Force Report.

PPSSCC did not make specific recommendations for this issue, nor did it estimate specific cost savings.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The Comptroller General has identified the improvement of the government's financial management structure as a priority effort. To that end, he commissioned a task force which developed the two-volume GAO report "Managing The Cost Of Government: Building An Effective Financial Management Structure." The report supports the need for a financial management structure that integrates accounting and budgeting processes, uses a structured planning and programming process, relies on a unified budget, uses accounting principles which match the delivery of services with the cost of services, encourages financial accountability, measures outputs as well as inputs, and supports the preparation of consolidated reports.

GAO has not specifically stated that Treasury is the agency which should be vested with responsibility for leading the development of a governmentwide financial and accounting system. The issue for GAO has not been what organization should develop an improved financial management structure, but rather, that an improved structure should be put into place. However, GAO has assisted the Department of Transportation in its efforts to (1) develop a model accounting system for the various Transportation agencies and (2) develop a standard accounting system for domestic agencies (executive agencies except DOD and State). OMB has encouraged Transportation in its efforts under the standard accounting system project.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with PPSSCC that individual departments and agencies have the authority to develop accounting systems which meet their organizational needs. In fact, the Budget and Accounting Procedures Act of 1950 makes the head of each executive agency responsible for establishing and maintain-

ing an accounting system which complies with principles and standards prescribed by the Comptroller General.

Developing a more uniform financial and accounting system is certainly feasible and should be accomplished because it would facilitate comparisons among agencies and programs and would facilitate development of consolidated financial reporting by the government. GAO's support of this concept is evidenced by our assisting the Department of Transportation in its efforts to develop a standard accounting system for domestic agencies.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

No specific cost savings were attributable to this issue.

V. LIST OF RELEVANT GAO REPORTS

GAO/AFMD-85-35 Managing the Cost of Government: Building An Effective Financial Management Structure (February 1985)

VI. GAO CONTACT

John R. Cherbini 275-9487

FINANCE 2: ACCOUNTING SYSTEMS

I. PPSSCC ISSUE AND SAVINGS

"What actions need to be taken to bring Federal agency accounting systems more in line with generally accepted business practices?"

No specific cost savings were attributable to this recommendation.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

PPSSCC suggests that a central controllership function be established in the executive branch and that comparable functions be established in the departments and agencies. The central controller should develop comprehensive accounting policy, financial reporting requirements, and internal control standards. PPSSCC also recommends introducing legislation to require agencies to gain Comptroller General approval for their accounting systems and to develop comprehensive annual reporting for the government.

GAO strongly supports the need for increased attention to the financial management requirements of the government and hence agrees with the intent of the PPSSCC proposal. In the GAO report "Managing the Cost of Government: Building an Effective Financial Management Structure," GAO describes a conceptual framework that provides theoretical support for a new financial process. The major concepts of the framework include the modernization and integration of the government's budgeting and accounting processes. Such improvements will provide government managers with better information to manage the cost of government through improved program and resource allocation decisions. Implementing significant revisions to the current government financial management process will necessitate strong leadership. GAO has not taken a position on the necessity of creating a new entity to provide the central controllership function because sufficient information is not yet available on the outcome of current management reform efforts. However, GAO believes improving the financial management capabilities of the individual departments and agencies will require competent trained financial and data processing professionals.

With regard to the PPSSCC recommendation for legislation to require agencies to gain Comptroller General approval of their accounting systems, it should be noted that existing legislation established this requirement. In addition, enactment of the Federal Managers' Financial Integrity Act of 1982, with its annual reporting requirement, provides additional incentives for agencies to improve their accounting systems. GAO believes that the intent of

the recommendation concerning comprehensive annual reporting is already being addressed. GAO has long recognized the need for consolidated reporting on the financial activities of the government and has worked with Treasury in its development of the prototype consolidated financial statements of the U.S. government. In addition, the GAO report "Managing The Cost Of Government" specifically cites the need for consolidated reporting as one of the underlying factors for the conceptual framework to support improvement of the government's financial management structure.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

PPSSCC's recommendation concerning the creation of an establishment in the executive branch to provide accounting policy, financial reporting requirements, and internal control standards would require a change to existing legislation which currently places those responsibilities with GAO, OMB, and Treasury. Title 2 of the GAO Policy and Procedures Manual for Guidance of Federal Agencies establishes accounting, financial reporting, and internal control standards for the government.

Under 31 U.S.C. 3512, the head of each agency is required to establish and maintain adequate systems of accounting and internal control that conform to the accounting principles, standards, and related requirements and internal control standards prescribed by the Comptroller General. Any guidelines and instructions that the Department of the Treasury may issue should be consistent with the standards promulgated by the Comptroller General.

Enactment of the Federal Managers' Financial Integrity Act of 1982 requires each agency head to report annually to the President and the Congress whether the accounting system complies with the Comptroller General's accounting principles, standards, and related requirements. Such annual reporting will provide an incentive to agencies to improve their accounting systems. Consequently, additional legislation to require agencies to gain Comptroller General approval of their accounting systems is not needed.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

No specific cost savings were attributable to this issue.

V. RELEVANT GAO REPORTS

GAO/AFMD-85-35 Managing the Cost Of Government: Building An Effective Financial Management Structure (February 1985)

VI. GAO CONTACT

John R. Cherbini 273-9487

I. PPSSCC ISSUE AND SAVINGS

"Is there presently an appropriate level of guidance and coordination of Government-wide financial management activities to assure development of accounting systems that provide adequate management information at central Government, department, and agency levels?"

No specific cost savings were attributable to this issue.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

This issue principally concerns the establishment of a centralized organization in the executive branch which would foster improvement in the government's financial management structure. PPSSCC believes that improvements would occur as a result of guidance and coordination provided by this central organization for the development of the format for external government reporting, revising budgetary classifications and financial management objectives, and increasing the staffing levels and disciplines in department and agency controllership offices. Additionally, the issue addresses the need for GAO to reexamine accounting requirements promulgated by the Comptroller General and the need to expedite or abolish the accounting systems approval process.

GAO fully agrees with the objective of improving the government's financial management structure. Our recent revision of title 2 of the GAO Policy and Procedures Manual for Guidance of Federal Agencies, which contains principles, standards, and related requirements prescribed by the Comptroller General demonstrates our interest in improving government financial management. We have not taken a position, however, on the need to create a new organization responsible for such improvements. PPSSCC recommends establishing a new organization. That approach may work. But, assigning responsibility to an existing organization might work equally as well. The important issue is to strengthen the financial management capabilities of individual departments and agencies.

In GAO's report "Managing the Cost of Government: Building an Effective Financial Management Structure," GAO specifically supported the need for consolidated reporting by the government, with the long-range objective that such reporting would be subject to an annual audit. GAO has also called for integration of the budgeting and accounting processes, a process that would benefit from changes in the budgetary classifications and financial management objec-

tives. The report describes a conceptual framework for government that includes seven concepts to improve financial management: use structured planning/programming; adopt a unified budget; budget and account on the same basis; use budgeting and accounting principles that match the delivery of services with cost; encourage financial accountability through reporting; measure outputs as well as inputs; and prepare consolidated reports from audited financial statements.

Two other actions directly support the efforts to improve the government's financial reporting. First, GAO completed a major project to update the accounting principles, standards, and related requirements prescribed for executive agencies. That project produced a revised title 2 of the GAO Policy and Procedures Manual for Guidance of Federal Agencies. The second action, enactment of the Federal Managers' Financial Integrity Act of 1982, provides agencies incentive to improve their accounting systems. Effective December 31, 1983, the act requires the head of each executive agency to report annually to the President and the Congress whether the accounting systems comply with the Comptroller General requirements. This disclosure of the status of agency accounting systems will provide information to enable the Congress, the President, and the public to identify agencies that are not making satisfactory progress in improving their accounting systems.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

PPSSCC believes and we agree that creation of a new organization to assume responsibility for government financial management would require legislation. GAO is not taking a position on the need for the executive branch to establish a new organization to foster improvement of the government's financial structure because sufficient information is not yet available on the outcome of current Administration management reform efforts. The PPSSCC recommendation for modification of budgetary classifications recognizes that it should be a cooperative effort between the executive and legislative branches to achieve greater correlation of information on plans and performance. However, the executive branch does not have authority to supersede GAO's responsibilities for establishing accounting requirements and approving accounting systems.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

No specific cost savings were attributable to this issue.

V. RELEVANT GAO REPORTS

GAO/AFMD-85-35	Managing The Cost Of Government: Building An Effective Financial Management Structure (February 1985)
	GAO Policy and Procedures Manual for Guidance of Federal Agencies, title 2 (November 1984)

VI. GAO CONTACT

John R. Cherbini 275-9487

HUD 1: FINANCIAL MANAGEMENT SYSTEM

I. PPSSCC ISSUE AND SAVINGS

"Would establishment of a modern accounting and financial management system within HUD result in cost savings and greater efficiency?

An estimated $172.4 million could result in savings and revenue in the first full year of implementation by establishment of a modern accounting and financial management system within HUD. Cost savings and revenue total $570.7 million over 3 years. Cash accelerations of $222.5 million can be made in year one."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The need for improved financial management systems at HUD has been the topic of various GAO reports. The issue generally addresses the need for a chief financial officer, improved cash management, and well-planned and executed system development efforts. The PPSSCC recommendations in that regard appear to have merit.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

PPSSCC stated that most of the recommendations could be implemented by HUD subject to funding approval by the Congress, and GAO agrees. PPSSCC appropriately noted that establishment of a new assistant secretary position for the proposed chief financial officer would need congressional approval. HUD agreed that many of the recommendations are feasible and concurred with the general thrust of the proposal. However, HUD disagreed that a need exists for a new assistant secretary position for financial matters, asserting that many of the concerns raised by PPSSCC can be eliminated through the current organizational structure.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO does not have sufficient information to assess the accuracy of the savings estimate. In an internal document, HUD reported that implementation of the recommendations would result in savings somewhat less than that estimated by PPSSCC.

V. RELEVANT GAO REPORTS

GAO/RCED-84-9	Increasing The Department Of Housing And Urban Development's Effectiveness Through Improved Management (Jan. 10, 1984)

GAO/AFMD-82-18	Problems Continue In Accounting For And Servicing HUD-Held Multifamily Mortgages (Aug. 18, 1982)
GAO/AFMD-82-14	Defaulted Title I Home Improvement Loans -- Highly Vulnerable To Fraud, Waste, And Abuse (Dec. 7, 1981)

VI. GAO CONTACT

John F. Simonette 275-9490

ENERGY 8: MULTIPLE ACCOUNTING SYSTEMS

I. PPSSCC ISSUE AND SAVINGS

"Can the multiple accounting systems within the Department of Energy (DOE) be improved and coordinated to provide better control and lower costs?

Potential savings of between $3.5 million and $4 million can be pinpointed by centralizing the control and processing of financial data and payrolls, and by rationalizing the present systems of property records and activity reporting. The added net savings that may result from introducing a computerized Financial Information System (FIS) cannot yet be estimated accurately. Various reforms should also provide more useful data, while reducing the risk of fraud or waste throughout the Department."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The general thrust of this issue is to improve control over DOE's financial management and increase the efficiency of certain accounting operations. To accomplish that objective, PPSSCC made several recommendations aimed primarily at centralizing financial management and accounting operations. As such, the issue is valid. One of the more significant recommendations would have the controller's responsibilities expanded to include all accounting matters at all field locations, a suggestion GAO has made in the past. For example, GAO previously recommended that the Secretary of DOE provide headquarters program and functional managers with direct lines of authority over their respective field staffs ("A New Headquarters/Field Structure Could Provide A Better Framework For Improving DOE Operations," GAO/EMD-81-97). GAO reiterated that recommendation in a subsequent report ("Major Financial Management Improvements Needed At Department Of Energy," GAO/OCG-82-1), in which GAO discussed the controller's difficulty in having policies and procedures properly implemented in field locations.

Other recommendations also have merit, but additional study is needed in several cases because their implementation could be costly. For example, one recommendation calls for consolidating and centralizing the processing of all employee payroll and personnel data for headquarters and field operations. Generally, consolidation of such activities offers the potential of achieving economies of scale and corresponding cost reductions, but usually not without an initial investment. Additional recommendations include centralization of control and processing of financial data, and reducing the frequency of various accounting reports. However, the PPSSCC report did not provide adequate information to allow GAO to comment on the merit of those recommendations.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees that most of the PPSSCC recommendations could be implemented within DOE's existing authority and structure, but the major obstacle for some of the recommendations is their possible cost. For example, the cost of centralizing the control and processing of financial data, consolidating headquarters and field payroll operations, and installing a new computerized financial information system would need to be weighed against the benefits such changes would be expected to provide. On the other hand, other recommendations apparently would involve little or no costs to implement. These include raising the dollar amount for capitalizing personal property and reducing the frequency of certain financial reports.

As for the key recommendation of making the controller responsible for field office accounting operations, DOE has decided not to implement our past recommendation which would have accomplished that by giving headquarters program and functional managers direct lines of authority over their respective field staffs. DOE stated that the existing organizational structure is sound and that the recommendation would, among other things, require excessive amounts of staff and impede day-to-day program accomplishment through excessive centralization.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO did not have sufficient information to judge the reasonableness of the savings.

V. RELEVANT GAO REPORTS

GAO/AFMD-83-38	Internal Control Weaknesses At Department Of Energy Research Laboratories (Dec. 15, 1982)
GAO/OCG-82-1	Major Financial Management Improvements Needed At Department Of Energy (Sept. 15, 1982)
GAO/EMD-81-97	A New Headquarters/Field Structure Could Provide A Better Framework For Improving Department Of Energy Operations (Sept. 3, 1981)

VI. GAO CONTACT

John F. Simonette 275-9490

ENERGY 10: AUDITS BY INSPECTOR GENERAL

I. PPSSCC ISSUE AND SAVINGS

"How can the Inspector General's office (IG) [at the Department of Energy] carry out its audit function more effectively? The most cost-effective way for the IG to broaden internal audit coverage appropriately would be through a substantial increase in entry-level and junior-level staffing and the selective use of outside auditing assistance. Net annual savings, as a result of greater cost avoidance and cost recoveries for the Department of Energy (DOE), are calculated conservatively at $22 million for the first year. Total savings would amount to $72.9 million over a three-year period."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

PPSSCC recommends that "the number of auditors in the IG office at DOE should be increased to broaden coverage" and that "in hiring new employees, the trend should be to recruit as many entry-level auditors as possible." PPSSCC states that, "it would be cost-effective to enlarge the IG's staff of auditors," that most "professionals on the staff are the Government equivalents of partners or managers in private sector audit firms," and that "there are no auditors in the office at what a commercial firm would consider the staff or entry level." PPSSCC's analysis of savings is based on hiring 190 entry-level auditors.

GAO does not know how many auditors the DOE-IG needs because it has not done a detailed analysis of the IG's annual audit plan and staff needs assessments. As of December 1984, IG's Office of Audit had 97 full-time permanent staff. GAO believes the IG should justify the need for each staff member in terms of its audit universe and priorities. In addition, the IG's requests for resources must be weighed against the needs of the other components within DOE. A GAO report in 1979 on the DOE-IG (EMD-80-29) stated that the IG needed a comprehensive audit plan to set priorities and better determine staff requirements.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

PPSSCC believes that staff at the DOE-IG could be increased on the authority of the Secretary of Energy and that the Office of Management and Budget will concur with the increase based on the cost-effectiveness of adding staff in the manner proposed. GAO believes that the

secretary's ability to increase IG staff must be considered in light of the constraints imposed by appropriations acts. If the IG receives funding under a separate appropriation, congressional concurrence would be required.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

PPSSCC believes that the cost of additional audit staff would be more than offset by the increased savings realized from their work. PPSSCC compared the DOE-IG's audit costs for fiscal year 1982 with the amount of "cost avoidance and recoveries" for that year and found that audit costs "represented a return of more than $6.50 for each $1.00 expended." The cost of more auditors was then multiplied at this ratio to derive a total savings of $72.9 million for 3 years.

GAO believes that additional audit staff will not necessarily realize savings at the ratio projected by PPSSCC. PPSSCC projects a straight-line rate of savings based on the ratio of $6.50 in savings for each $1.00 in audit costs. PPSSCC states that the cost of 190 additional auditors "should be able to maintain the recorded ratio of $6.50 in cost-avoidance and recovery savings per $1.00 invested." However, PPSSCC also points out that, "adding auditors will not continue to produce savings at a straight-line rate indefinitely." GAO agrees with this statement but does not know how many new auditors can be hired before "diminishing returns" result.

V. RELEVANT GAO REPORTS

GAO/AFMD-84-78	Impact Of Administrative Budget Procedures On Independence Of Offices Of Inspector General (Sept. 26, 1984)
GAO/AFMD-83-38	Internal Control Weaknesses At Department Of Energy Research Laboratories (Dec. 15, 1982)
AFMD-81-106	Weaknesses In Internal Financial And Accounting Controls At Department Of Energy Accounting Stations (Sept. 17, 1981)
EMD-80-29	Evaluation Of The Department Of Energy's Office Of Inspector General (Nov. 28, 1979)

VI. GAO CONTACT

John J. Adair 275-9359

I. PPSSCC ISSUE AND SAVINGS

"Does the Federal Government's internal audit organization function effectively on a decentralized, department and agency basis in the application of audit resources?"

PPSSCC did not quantify the savings that might result from its recommendations in this area.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

PPSSCC recommends that there be established in the Office of Management and Budget "a full-time audit support division headed by a director of audit coordination, replacing the part-time staff support now provided to the PCIE [the President's Council on Integrity and Efficiency]...to assist PCIE in addressing common problem areas and deficiencies in audit administrative functions and technical performance areas." PPSSCC believes PCIE is currently understaffed and that PCIE activities should be "broadened to include monitoring of the scope and quality of audit work currently performed, with a view toward providing counsel to the individual IGs on matters dealing with the depth and breadth of audit coverage (scope) and the application of technical audit procedures." PPSSCC states that PCIE "should monitor" the activities of the audit support division and that the purpose of its recommendation is to "strengthen PCIE activities through increased staff support in the form of the audit support division."

GAO believes there is no need for such a division. According to PPSSCC, one purpose of the audit support division would be to develop and oversee a quality assurance program. However, several OIGs are currently planning or conducting self-assessments of their work. Also, GAO has begun quality assessment reviews of OIGs and other federal internal audit organizations and will review the operations of all OIGs within 5 years.

GAO believes that PCIE members should decide if the "common problem areas and deficiencies" noted by PPSSCC warrant the full-time staff suggested by PPSSCC.

GAO agrees with PPSSCC's proposals that IGs increase the attention given to internal control evaluations and assure the resources needed to perform them. With enactment of the Federal Managers' Financial Integrity Act in 1982 and promulgation of the Comptroller General's Standards for Internal Controls in the Federal Government, IGs have already begun to take steps to improve their internal control evaluations and conduct more of them. Agency heads and IGs also appear to be working together to improve agency vulnerability assessments.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with PPSSCC that establishment of an audit support division in the Office of Management and Budget could be accomplished by executive action. However, the Congress would have to increase OMB's appropriations to fund the activities of such a division.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

PPSSCC did not quantify the savings that would result from establishment of an audit support division in the Office of Management and Budget.

V. RELEVANT GAO REPORTS

GAO/OCG-84-3	Implementation Of The Federal Managers' Financial Integrity Act: First Year (Aug. 24, 1984)
GAO/AFMD-84-27	Internal Control Weaknesses At The General Services Administration (June 1, 1984)
GAO/AFMD-83-35	Selected GSA Real Property Operations Contain Internal Control Weaknesses (Jan 14, 1983)
FGMSD-80-39	GAO Findings On Federal Internal Audit --A Summary (May 27, 1980)

VI. GAO CONTACT

John J. Adair 275-9359

FINANCE 1: THE TRUE SIZE OF THE FEDERAL BUDGET

I. PPSSCC ISSUE AND SAVINGS

"What is the size of the federal government and does the federal budget fully disclose the level of all federal activities?

The expenditures of the federal government, as currently defined in the federal budget, significantly understate the true level of federal activity because they exclude or only partially include major governmental spending commitments.

PPSSCC estimates that fully reflecting these items as part of a more encompassing presentation of governmental activities would result in federal expenditures and obligations for fiscal 1984 of approximately $1,812 billion, more than double budgeted government outlays of $849 billion."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

PPSSCC recommended that the following actions be taken in order to fully reflect the level of federal activities in the federal budget and make the budget a truly comprehensive document:

--Include offsetting collections in both revenue and outlay totals. This change in data presentation does not change the reported deficit but would reflect the true (gross) government activity on an agency/function basis.

--Place off-budget federal entities back onto the budget since they pursue government based activities.

--Include guaranteed loans in budget outlays since government policies provide credit to borrowers at more favorable terms than are otherwise available in the private market, thus reallocating credit toward federally selected uses.

--Include government-sponsored enterprises (i.e., the Federal National Mortgage Association) in budget outlays for the same reason as guaranteed loans.

--Include the full cost to fund the liabilities of federal pension, retirement, and disability plans in the federal budget.

GAO is concerned about the government's practice of offsetting certain types of revenues when computing and reporting budget outlay and revenue totals. This understates outlay and revenue totals since they are

reported on a net rather than gross basis. GAO believes that budget totals would be more meaningful if these offsetting and off-budget practices were eliminated. Fully disclosing total levels of federal activities would allow the Congress to more effectively exercise control over the federal budget. GAO concurs in its PPSSCC recommendation.

GAO agrees with PPSSCC that the unified budget should encompass the full scope of programs and transactions that are within the federal sector.

The last three recommended actions involve very complex issues, and GAO currently has no opinion about the most appropriate budget treatment. Fuller disclosure is desirable, but simply combining loan guarantee amounts with cash outlays may produce a misleading measure of total government activities. Many of the technicalities of how best to make these disclosures have not yet been worked out.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

Some of the off-budget activities have been placed off-budget by law. However, bills have been introduced to put some of these activities on-budget, such as the Federal Financing Bank. With the passage of these bills, OMB and Treasury will be able to make the changes necessary to implement the thrust of PPSSCC recommendations. Some difficulties exist in computing the anticipated cost of loan guarantees, but CBO is working on this issue.

OMB published a revised version of Circular A-70, "Federal Credit Policy," on August 24, 1984. Circular A-70 encourages agencies to focus more closely on developments in the financial markets and to relate their credit assistance to conditions in those markets. This revision is a positive move on OMB's part to better control federal credit.

GAO is already on record with regard to including offsetting collections in both revenue and outlay totals and disclosing the full cost to fund the liabilities of federal pension, retirement, and disability plans in the federal budget. OMB and Treasury need to take the steps necessary to do so. Funding the full cost of these liabilities in the budget at this time is probably not feasible because of the already large existing deficit.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

PPSSCC did not compute a savings estimate for this recommendation.

V. RELEVANT GAO REPORTS

GAO/PAD 81-36	Federal Budget Concepts And Procedures Can Be Further Strengthened (Mar. 3, 1981)
GAO/PAD 81-22	Federal Budget Totals Are Understated Because Of Current Budget Practices (Dec. 31, 1980)
GAO/PAD 80-29	Spending Authority Recordings In Certain Revolving Funds Impair Congressional Budget Control (July 2, 1980)
GAO/PAD 79-20	Federal Budget Outlay Estimates: A Growing Problem (Feb. 9, 1979)
GAO/PAD 77-70	Government Agency Transactions With The Federal Financing Bank Should Be Included On The Budget (Aug. 3, 1977)

IV. GAO CONTACT

Kenneth W. Hunter 275-9577

ASSET 31: FEDERAL FINANCING BANK BUDGETARY TREATMENT

I. PPSSCC ISSUE AND SAVINGS

"Should the activity of the Federal Financing Bank (FFB) be reflected in the unified budget total?

First year savings of $146.5 million and 3 year cumulative reduction of costs/outlays of $484.9 million have been identified."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO agrees with PPSSCC that the activities of FFB should be reflected in the unified budget totals. GAO believes that the unified budget should encompass the full scope of programs and transactions that are within the federal sector. The FFB was created by the Federal Financing Bank Act of 1973 subject to the general supervision of the Secretary of the Treasury. The bank was established to consolidate and coordinate all direct and indirect government borrowings and, by providing a more ordered government securities market, to achieve the best cost (i.e., the lowest rate) for those borrowings. The off-budget status of FFB and the budgetary treatment of its purchase of certificates of beneficial ownership and guaranteed loans has resulted in congressional control and oversight problems since FFB was created. The off-budget status also understates by billions of dollars outlay and deficit totals, which are key points of control in the budget process.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

Several bills have been introduced and hearings have been held on the issue. Treasury and the Cabinet Council on Economic Policy agree that FFB should be on-budget.

GAO and PPSSCC also support this legislation. GAO has testified in favor of such legislation, supported it in bill comments, as well as reporting several times on this issue. H.R. 5247, the Congressional Budget Act Amendments of 1984, is a recent bill which requires the activities of the FFB to be placed on-budget. The bill is the result of the extensive work of the Task Force on the Budget Process of the House Rules Committee in its efforts to develop improvements to the congressional budget process. The task force was concerned that the current budget treatment of FFB obscures the amount and purposes of federal credit activity. Given the number of bills which have been introduced to put FFB on-budget and the receptivity of the executive branch to this idea, there should be little problem in doing so. However, Congress would have to pass [redacted] do this.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The rationale PPSSCC used in estimating the 3-year savings of $484.9 million is based on the premise that the budget is the primary control point for expenditures. Therefore, PPSSCC concludes, any significant amounts put on-budget should force more cuts in expenditures and therefore, reduce Treasury borrowing. Reduced Treasury borrowing should decrease demand in the capital markets, which, in turn, should result in lower Treasury costs, according to PPSSCC.

GAO agrees that the budget is a primary control of expenditures and that Treasury borrowing may affect interest rates in the capital markets. However, it is highly speculative that placing FFB on-budget would force cuts in expenditures, and even more speculative that such cuts would be significant enough to lower the borrowing costs for Treasury. GAO believes that it is not possible to calculate the savings which may result from putting FFB on-budget.

V. RELEVANT GAO REPORTS

GAO/PAD-81-36	Federal Budget Concepts And Procedures Can Be Further Strengthened (Mar. 3, 1981)
GAO/PAD-81-22	Federal Budget Totals Are Understated Because Of Current Budget Practices (Dec. 31, 1980)
GAO/PAD-77-70	Government Agency Transactions With The Federal Financing Bank Should Be Included On The Budget (Aug. 3, 1977)

VI. GAO CONTACT

Kenneth W. Hunter 275-9577.

FMS 5: CAPITAL BUDGETING

I. PPSSCC ISSUE AND SAVINGS

"How can the planning and budgeting for capital expenditures and assets be improved?" For the purposes of this issue, capital expenditures were defined by PPSSCC as long-term financial investments in assets representing large commitments of resources that commonly include land, buildings, facilities, equipment, and vehicles.

PPSSCC has concluded "that implementation of a government-wide capital budgeting process would result in better management and utilization of capital assets and funds, long-term improvements in the nation's physical assets, planned maintenance and repair activities and long-term cost reductions."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

In the past few years, GAO has been concerned about the important question of how we plan and budget for this nation's capital investments. Our general conclusion is that the government as a whole does not do a very good job in this area. PPSSCC also sees much room for improvement. The weaknesses in agency capital investment planning are coupled with the lack of an integrated strategy or planning structure for considering investment priorities among agencies. GAO supports greater visibility for capital investment decisions and a better framework for making those decisions than is currently provided in the budget. The "Public Works Improvement Act of 1984" should help in achieving this goal.

As a result of its work, PPSSCC made the following recommendations:

--Prepare a comprehensive special capital analysis within the Special Analysis section of the annual budget.

--Institute a federal capital budgeting and planning process, separately constituted but integrated with overall resource planning and allocation systems.

The recommendations are in accord with GAO recommendations on this issue. PPSSCC relied heavily on GAO's work for this portion of its study.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The passage of P.L. 98-501 on October 19, 1984, provides new and specific statutory authority for improving the planning and budgeting for capital expenditures. It establishes a National Council on Public Works Improvement, which is to prepare and submit to the President and the Congress a report on the state of the nation's infrastructure. The law also requires the President to submit with his budget materials extensive information related to public civilian and military capital investment needs. This law requires a substantial improvement in the way capital budgeting is carried out.

PPSSCC recommendations are feasible and can be implemented. The requirements of P.L. 98-501 should adequately address the thrust of PPSSCC recommendations.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

PPSSCC did not compute savings estimates for the recommendation.

V. RELEVANT GAO REPORTS

GAO/PAD 83-1	Pros and Cons Of Separate Capital Budget For The Federal Government (Sept. 22, 1983)
GAO/PAD 81-19	Federal Capital Budgeting: A Collection Of Haphazard Practices (Feb. 26, 1981)

VI. GAO CONTACT

Kenneth Hunter 275-9577.

FMS 6: PLANNING AND BUDGETING

I. PPSSCC ISSUE AND SAVINGS

"How can long-range planning processes within the executive branch be improved?"

No specific cost savings were attributable to this issue.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

This issue involves establishing a process within the executive branch that links long-term presidential objectives, budgeting, and agency plans to improve resource allocation. Responsibility for overseeing the new planning process would be assigned to the Office of Federal Management that PPSSCC believes should be created.

GAO has recognized the need for a governmentwide process that would enable the Congress, the President, and agency officials to focus policy deliberations more systematically on the nation's long-term issues. In GAO's report "Managing the Cost Of Government: Building An Effective Financial Management Structure," GAO said that such a process would highlight major policy and program options and their likely benefits and costs and would result in better-defined goals, strategies, and priorities. The PPSSCC recommendation for an improved planning process is limited to the executive branch, while GAO's preferred approach would result in a governmentwide process. We support the PPSSCC plan to the extent that it prepares the way for a governmentwide planning and programming system. GAO is not taking a position on the need for a new organization within the executive branch to provide oversight responsibilities because sufficient information is not yet available on the outcome of current Administration management reform efforts.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

PPSSCC believes that the executive branch has the authority to implement a long-range planning process. GAO agrees that the executive branch has such authority.

The Department of Defense Planning/Programming/Budgeting System provides an example of a sophisticated process with a program structure, program reviews, updating procedures, and a multiyear plan. These general features, with appropriate modifications, could be employed by other agencies. For example a major problem with Defense's system, and similar systems operated by other agencies, is the

absence of sufficient integration and consistency with the agency accounting system. This type of problem should be avoided in designing new systems.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

No specific cost savings were attributable to this issue.

V. RELEVANT GAO REPORTS

DOD/GAO	DOD's PPBS (September 1983)
GAO/AFMD-85-35	Managing The Cost Of Government: Building An Effective Financial Management Structure (February 1985)

VI. GAO CONTACT

John R. Cherbini 275-9487

I. PPSSCC ISSUE AND ESTIMATED SAVINGS

"Can improvements in strategic planning, particularly in the goal-setting process, result in improved and more cost-effective research and development (R&D) management in the agencies?"

The PPSSCC believes that significant improvements are possible in the R&D management process through the implementation of effective strategic planning. The PPSSCC estimates that implementation of specific recommendations would result in savings of $2.2 billion in the first year, $2.4 billion in the second year, and $2.7 billion in the third year for total three-year savings of $7.3 billion.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO supports the PPSSCC's view of strategic planning as essential to good R&D management. An important element of strategic planning is an organization's ability to assess and forecast the environment in which it functions. This element of strategic planning is particularly relevant for agency research and development programs which operate in an environment containing the needs and interests of different levels of government, the scientific community and industry. The PPSSCC makes three recommendations in its discussion of the need for better strategic planning: redirection of agency planning efforts toward goal-setting, developing improved strategic planning concepts and procedures, and using strategic planning as a basis for subsequent budgeting and operational management.

These recommendations were based on the following findings: federal goals for research and development lack clarity, specificity and the ability to be measured; agency processes for strategic planning are characterized by such problems as lack of coordination within an organization; and finally, the strategic planning process in the government does not work within realistic budget constraints or result in implementation plans.

GAO agrees with PPSSCC that goal-setting is a necessary element in planning and generally supports their findings on lack of clarity in statements of goals. In some programs, however, goal-setting is inherently difficult because of the unpredictability of basic research. GAO would add that goal setting for R&D should not only occur within agencies but across agencies as well.

PPSSCC also calls for the development of improved strategic planning concepts and procedures. GAO agrees both with PPSSCC's statement that a single system cannot be

applied uniformly to all agencies, and with their documentation of problems with agency processes for strategic planning.

The third recommendation emphasizes that strategic planning should be used as a basis for subsequent budgeting and operational management. GAO reports on strategic planning have criticized instances of the lack of integration between the planning and budgeting process. Such reports discuss the need for this process to operate in a systematic fashion, linking it to other management processes such as budgeting and operational planning.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that all three recommendations could be implemented through executive action. However, strategic planning in government should require the input of entities outside of the executive branch--the Congress, other levels of government, and the scientific community. Many aspects of government policy-making counteract the objectives of the planning process. These include the relatively short tenure of senior executive branch and congressional officials, changing political considerations, and the annual budget cycle.

In the first recommendation, PPSSCC discusses goal-setting without recognizing the active involvement of Congress in setting goals for research programs. The ease or difficulty of developing strategic planning concepts and procedures, the subject of the second recommendation, will be influenced by agency experience with strategic planning and the extent to which strategic planning is adopted by the President, his staff and cabinet, and the Congress. The third recommendation would link budgeting with strategic planning but political factors can weaken the efficiency of this linkage in three ways. First, funds might not be appropriated which are needed to carry out plans and meet goals. Second, delays in funding can inhibit planning and operational guidance. Third, priorities may change significantly with each newly elected administration.

While the executive branch has not taken a final position on the three recommendations, OMB staff told GAO that clear well-defined goals and strategic plans will not eliminate waste in R&D spending. They also said that because of the number of "externalities" affecting the fate of R&D projects, the success of strategic planning is less promising for the federal government than for industry.

Other agencies have claimed that they are implementing the PPSSCC proposals on strategic planning. For example, during House appropriations hearings in early 1984, the

Secretary of DOE said that the Administration responded to concerns over DOE's mission by defining the federal role in energy research and development as concentrating on long-term, high-risk basic research. In a NASA issue paper on R&D management improvement studies, it was noted that current planning efforts at NASA already address the PPSSCC recommendations on strategic planning. EPA's Office of the Comptroller has cited the agency's development of a five year research strategy, updated annually with the help of program offices.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

PPSSCC stated that implementation of the three recommendations related to strategic planning would result in a total potential savings of $7.3 billion over three years. They arrived at this estimate by employing two techniques: first, extrapolating savings estimated by the PPSSCC task force on Office of the Secretary of Defense and second, using the collective judgment of agency management personnel, public interest leaders, and senior private sector R&D managers. Aside from noting that these two techniques lend themselves to speculation or subjective estimates, GAO has no specific basis for commenting on these estimates.

V. RELEVANT GAO REPORTS

GAO/OACG-84-5	The Department of Defense's Planning, Programming and Budgeting System by the Joint DOD/GAO Working Group on PPBS (Sept. 1983)
GAO/PAD-80-79	The Office of Science and Technology Policy: Adaptation to a President's Operating Style May Conflict With Congressionally Mandated Assignments (Sept. 3, 1980)
Testimony	Before the Subcommittee on Science, Research, and Technology of the House Committee on Science and Technology on "Long-Term planning for National Science Policy" (July 31, 1980)

VI. GAO CONTACT

Herbert McLure 275-7783

I.a. PPSSCC ISSUE (R&D 2) AND SAVINGS

"Can the detailed process associated with the budget be improved to make the research and development (R&D) management process more efficient?"

PPSSCC believes that implementation of its recommendations will significantly improve the overall management of R&D. Major savings opportunities are available in the actual R&D and associated procurement funds. Several PPSSCC Task Forces recommended changes in this area with estimated savings opportunities of $25.9 billion over three years. These savings opportunities impact both the Research, Development, Test and Evaluation (RDT&E) budget and the associated procurement budget. The R&D Task Force estimates three-year savings opportunities of $3.67 billion in the RDT&E budget if major reforms are implemented in the budget process.

I.b. PPSSCC ISSUE (ENERGY 13) AND SAVINGS

Can the costs of administering the DOE budget associated with the operation of the National Laboratories be reduced by moving to multi-year budgeting? The PPSSCC estimated savings of 25 percent by NASA and 20 percent to 30 percent by several DOE offices for multi-year budgeting. Conservatively, PPSSCC believes that savings of 5 percent of the expenditure or $125 million in the Administration's request for FY 1983 can be realized.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO supports R&D budget reform, especially for basic and exploratory applied research and development which are generic and essential to a strong science and technology base. PPSSCC's R&D Task Force argues that the characteristics of the annual budget cycle lead to inefficiency, administrative burdens, and cost growth for R&D programs. Such characteristics include: extensive budget detail and justification, the two to three year lag between initial budget planning and subsequent funding actions, and excessive use of technical staff. Similarly, the task force on the Department of Energy describes the annual budget process as "wasteful of scientific progress, research talent and facilities."

GAO believes the PPSSCC recommendations begin to address these problems. The PPSSCC's R&D task force calls for establishing multiyear budgeting, reducing budgetary details, shortening the two to three year budget cycle and

reducing technical staff. Such recommendations could increase the stability of funding for R&D programs, streamline the budgeting process, and provide linkages between strategic planning and policymaking.

PPSSCC also proposed that the Executive Branch introduce legislation which would budget R&D for DOE's national labs on a rolling three year term. Each year, the budget proposed for the following three years would be reviewed including two years from the budget approved in the previous year with the addition of a newly proposed third year. In a 1981 report on multi-year authorizations for research and development GAO concluded that a rolling multi-year authorization process is an additional way to increase continuity and stability in R&D programs.

GAO has taken the position that budgetary reform by itself may not achieve the desired results. GAO believes that the PPSSCC recommendations should be reviewed in the context of restructuring the financial management system of the federal government. In addition, it is not clear that budgetary reforms will reduce cost growths in R&D programs because escalation in cost is affected by other factors such as the desire of program advocates to sell the program to both agency management and the Congress with low-cost estimates.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

According to the R&D task force of PPSSCC, implementation of its recommendations would require congressional approval preceded by discussions between OMB, agencies, and congressional staff. In recommending multi-year budgeting for DOE, the PPSSCC task force on that department calls for statutory change by Congress. GAO agrees that legislation would be required to change the authorization and appropriations process now followed by DOE.

OMB is evaluating these recommendations and their impacts on the budget for 1986 and future years. The initial reaction of OMB staff is that implementation would be difficult because of congressional unwillingness to support multiyear budgeting in any but the most stable and routine programs. OMB staff now supports estimates of firmer outyear costs to encourage planning by agencies. The Department of Energy, in commenting on ENERGY 13 (which would introduce a rolling multi-year authorization process for the national labs) said that while the recommendation is sound, it does not have plans for immediate implementation.

IV. GAO ANALYSIS OF SAVING ESTIMATE

While GAO has no basis for assessing the PPSSCC cost savings estimate associated with the R&D and DOE budget issues, it believes improvement in government operations would result in saving opportunities derived from budgetary reforms.

V. RELEVANT GAO REPORTS

GAO/PAD-81-61	Multiyear Authorizations For Research and Development (June 3, 1981)
Testimony	Before the Senate Committee on Governmental Affairs on Perspectives on Budgeting for State and Local Needs and Biennial Budgeting (May 5, 1983)

VI. GAO CONTACT

Herbert McLure 275-7783

TRANS 1: RESEARCH AND DEVELOPMENT WITHIN THE DEPARTMENT OF TRANSPORTATION

I. PPSSCC ISSUE AND SAVINGS

"Are Department of Transportation (DOT) research and development (R&D) programs and expenditures being managed effectively in keeping with Congressional mandates and departmental missions and goals pertaining to critical issues facing transportation in the United States?"

The PPSSCC reports that the organization and management of R&D in DOT can be greatly improved. Its recommendations show an initial savings of $85.5 million in R&D appropriations. The PPSSCC also reports that, although future savings depend on policy-guided research goals and priorities determined in the Office of the Secretary (OST), it is possible to generate additional savings of $94.6 million and $104 million in the second and third years of implementation by following its recommendations so that the 3-year savings would be $284.2 million.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

PPSSCC makes three recommendations to improve the management of DOT R&D programs. DOT, through the Office of the Secretary of Transportation, should create an entity responsible for R&D policy, goal-setting and monitoring and also establish a new DOT R&D organization structure and management review process. The third recommendation encourages joint research between DOT and industry.

In past reports, GAO has recognized the relationship between improvements in organizational structure and effective management of research activities. Such work leads us to support the PPSSCC in its concern for better management and organization of research at DOT. GAO reports on research activities sponsored by such DOT administrations as the National Highway Traffic Safety Administration (NHTSA) and the Urban Mass Transportation Administration (UMTA) list some of the problems reported by the Grace Commission: the need for formal planning tools, less than well-defined organizational responsibilities for research, and the lack of formal processes to assess the impact or use of research results. Another GAO report concluded that the establishment of a system for developing and implementing policy department-wide could strengthen the handling of issues affecting more than one operating administration. R&D in support of highway safety is an example of a cross-cutting issue common to a number of DOT administrations. GAO has also issued reports on other research agencies in other departments which have noted the value of establishing a focal point in the organization for identifying and sponsoring long term research.

GAO also agrees with the PPSSCC recommendation to encourage joint efforts with industry in transportation R&D. A GAO 1982 report on UMTA's R&D prgram concluded that UMTA needed to design a means of ensuring that its research program is directed at the most important, widespread industry needs. In addition, similar research was being carried out by UMTA and the transit industry in several areas. GAO said in the case of UMTA that "where private industry is interested in a specific research proposal but is unwilling to undertake all the costs or risks associated with it, UMTA could work cooperatively with industry . . . Cooperative efforts could also reduce barriers to research use." Such cooperation would "steer UMTA away from research that private industry is willing and able to conduct on its own."

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

PPSSCC states that the Secretary of DOT can implement all three recommendations. In response, the Department has appointed a science advisor to the Secretary who will advise her on departmental R&D policy and goals. While a science advisor can inject important scientific perspectives into top-level decisions, it is not clear that the appointment of a science advisor can be equated with the organizational changes proposed by PPSSCC. Also, the number and workload of the science advisor's staff, if any, are not specified at this point by the Department of Transportation and it is unlikely that a science advisor with a small staff and a heavy workload would be able to assume many of the responsibilities outlined in the three recommendations.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

PPSSCC estimated 3 year total savings of $284.2 million which assumes that expenditures for noncritical and/or R&D projects left to the private sector can be eliminated. GAO finds it difficult to comment on the precise figures employed by the task force since specific projects and their current and projected costs are not listed by PPSSCC. GAO does agree that savings could be realized by better coordination of DOT research activities with industry through the planning process. Knowledge of current industrial research might eliminate the need for agency research which private industy is able to conduct on its own.

Past GAO work has illustrated the costs of duplication. A 1982 GAO report on UMTA listed two projects where UMTA supported research similar to that in industry. In the first project, UMTA and several manufacturers concurrently developed an electronic system of monitoring the location and operational status of vehicles on city streets--to increase a transit system's safety and productivity. The total cost of the UMTA project was $13 million. In the second project, UMTA awarded one bus manufacturer an $88,833.87 contract in 1976 for designing a wheelchair lift

device that could be installed on existing buses, even after two other bus manufacturers informed UMTA that they had been developing that kind of equipment on their own.

V. RELEVANT GAO REPORTS

GAO/CED-82-102	Strengthening Transportation Policy Development and Implementation (Sept. 9, 1982)
GAO/CED-82-17	UMTA's Research and Development Program Should Pay Closer Attention to Transit Industry Needs (Jan. 20, 1982)
GAO/CED-80-87	Highway Safety Research and Development--Better Management Can Make It More Useful (July 28, 1980)

VI. GAO CONTACT

Oliver Krueger 275-6111

FMS 10: IMPROVEMENT OF FEDERAL EVALUATION

I. PPSSCC ISSUE AND SAVINGS

Can the activities, results and utilization of Federal Program evaluations be improved?

Program evaluation is the systematic collection of information about program requirements, activities, outputs and outcomes for the purposes of management and service delivery improvement. By tying the evaluation results to budgeting and planning, executives and managers are able to identify opportunities for program improvements and to establish priorities for resource allocation.

According to the PPSSCC the Government will realize savings from more cost-effective resources (funds and staff) expended for program evaluation activities, and through the ability to make better informed program decisions. Coordination of evaluation with the budget process will give the Administration greater control over program operations.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO believes the issue and three component recommendations raised by the PPSSCC have overall merit and deserve support. Specifically, the recommendations to require agencies to (1) develop annual evaluation plans (2) improve the quality of data available to program managers on a routine basis and (3) utilize program evaluation results more consistently are important and can serve as a means of improving the evaluation process. In addition, while not recommended by the PPSSCC, GAO believes a prominent role by the Office of Management and Budget in encouraging agency program evaluation efforts would help improve the performance and utilization of federal program evaluation efforts.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

Although the OMB has the authority to implement these three recommendations, it has not chosen to do so. GAO believes these PPSSCC recommendations will not be effectively implemented unless OMB, the departments, and agency staffs fully support them. There is little evidence of effort by OMB in terms of support for the evaluation process itself. OMB for the past several years has chosen to leave evaluation in the hands of each department or agency. OMB has also rescinded OMB Circular A-117, which outlined guidance for the development and application of program evaluations. Currently, the vitality of program evaluation efforts vary from agency to agency, and department to department.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC did not estimate savings from this issue and GAO agrees such an estimate would be extremely difficult to make.

V. RELEVANT GAO REPORTS

GAO/IPE:	Special Study A Profile of Federal Program Evaluation Activities (Sept. 1982)
GAO/PAD-78-83	Status and Issues - Federal Program Evaluation (Oct. 1978)
GAO/PAD-79-2	Assessing Social Program Impact Evaluations: A Checklist Approach (Oct. 1978)
GAO/PAD-78-3	Finding Out How Programs Are Working: Suggestions for Congressional Oversight (Nov. 22, 1977)

VI. GAO CONTACT

Lois-ellin Datta 275-1652

CHAPTER 2

FEDERAL CREDIT AND CASH MANAGEMENT

The federal government historically has experienced problems in conducting its credit and cash management operations. GAO has recommended numerous actions to improve operations in these areas but agencies have not always implemented these recommendations. Recently, with Congress' and OMB's increased emphasis on credit and cash management, agencies have made improvements. As PPSSCC points out, however, more needs to be done.

The PPSSCC presented 34 issues affecting federal credit and cash management. Of these 34 issues, GAO found overall merit in 29, questioned the merits of three, and had no position on two. The PPSSCC estimated that implementing the recommendations that make up its credit and cash management issues would either save, or increase or accelerate collections by approximately $38 billion over a 3 year period. GAO could not conclusively affirm whether this estimate could actually be attained but nonetheless believes substantial savings would result.

Many of the PPSSCC issues required legislative action to be fully implemented. With the enactment of the Debt Collection Act of 1982 and the Deficit Reduction Act of 1984, a number of the PPSSCC's issues have been addressed. In fact, for the 34 issues, 22 either have been implemented already or can be implemented through administrative action. Twelve require additional legislative action to be fully implemented.

VETS 3: DEBT COLLECTION AT VETERANS ADMINISTRATION

I. PPSSCC ISSUE AND SAVING

"Can the Veterans Administration (VA) improve the results of debt collection efforts through the use of current private sector practices and improved management procedures and reporting techniques?" PPSSCC estimates that VA could recover $208 million of debt and achieve an additional reduction of $53.9 million in interest costs over 3 years if VA implements these debt collection recommendations.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

Debt collection has been a significant problem in VA for a number of years. PPSSCC made five recommendations to help alleviate this long-standing problem:

--establishing a new accounting management structure,

--assigning of debt collection responsibility to VA's field stations,

--assigning of debts delinquent over 1 year to outside collection agencies,

--increasing the limit for transferring past due debts to the Department of Justice, and

--pursuing legal action to collect debt through execution of a judgment.

Except for the last recommendation, for which GAO has no basis for opinion, it agrees with the merits of the other recommendations. Both GAO and VA's Inspector General have also identified the potential for VA to improve its debt collection techniques by using private sector practices and improving management procedures and techniques.

PPSSCC's first recommendation that a new account management structure be established for VA debt was recognized as a problem in GAO's report "Significant Improvements Seen In Efforts To Collect Debt Owed the Federal Government" (AFMD 83-57, April 28, 1983). GAO pointed out that fragmented accounting information was a problem hampering VA debt collection efforts and that VA had initiated efforts to update its ADP system to correct the problems.

PPSSCC also recommended that VA assign responsibility for debt collection to the field station and provide necessary tools and procedures to support this responsibility. Timely and direct contact with veterans as soon as practical after a delinquent debt is recognized can increase VA debt collection prospects. Such aggressive collection efforts have proven their worth in both the public and private sector. A VA official advised us that establishing debt collection groups in each of its 53 regional offices would be costly because it would require hiring additional personnel to perform a direct contact effort which is now done through letters generated at a central location.

With respect to PPSSCC's recommendation that VA assign all debts over 1 year to outside collection agencies, GAO reports, as well as a January 1983 VA Inspector General report, recommended that VA test the use of private collection agencies. In addition, the House Appropriations Committee has directed VA to test the private collection agency technique. However, a VA official advised us that the test has not yet been undertaken because other items such as implementation of the Federal Managers'Financial Integrity Act were given priority.

In addition, PPSSCC also recommended that in those instances where VA instituted legal action to collect debt, it should carry through the action to the execution of judgment. A VA official advised us that legal actions are normally pursued through execution of judgment when it is cost effective. For example, VA does not pursue legal action if it would force the debtor veteran into bankruptcy or if legal action would cost more than the debt owed.

PPSSCC further recommended that the monetary limit for transferring jurisdiction for debt collection action to the Department of Justice be increased. Public law 96-466 (38 U.S.C. 3116) provides statutory authority for VA to litigate its own debts. In a memorandum of understanding between VA and the Department of Justice, it was agreed that VA could litigate all debts under $1,200, provided substantive legal issues were not involved and legal action to collect debts of $1,200 or more be re-ferred to the Justice Department. Because of the small size of the individual VA debts and the large workload of the U.S. Attorney's Office, little formal legal action is initiated within the Justice Department on VA's referred debts. A higher limit would place responsibility for legal action with VA, which recently was autorized an additional 120 positions in its General Counsel's Office for litigating debt. Thus, an increase in dollar amount of debt which

VA itself could litigate would seem appropriate. A VA official advised us that Justice and VA have not been able to reach an agreement on increasing the $1,200 limit because the Justice Department itself could not reach agreement on what the new limit should be.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The recommendations can be implemented through administrative action by the Veterans Administration and in one instance the Department of Justice. However, the implementation of the recommendations may not be cost-effective in every case, especially considering the costs involved in the other debt collection procedures VA has recently implemented. For example, VA has taken a number of steps to improve its debt collection process, including some actions implementing, at least in part, the PPSSCC recommendations. Thus, before proceeding with each recommendation, a comparison of the amounts of additional debts that will be collected with the additional costs incurred to collect the debt should be made. To the extent the recommendations are cost-effective, successful implementation will further improve VA efforts to collect past-due debts.

IV. GAO ANALYSIS OF SAVING ESTIMATE

Because the data PPSSCC used to establish its estimate of savings is not clear, GAO could not form a basis for analyzing the PPSSCC survey estimate. However, as VA's Inspector General has projected past-due debt arising from VA programs will be about $1 billion at the end of fiscal year 1985. Thus, collection of such debt does offer the potential for significant savings.

V. RELEVANT GAO REPORTS

GAO/FGMSD 83-57	Significant Improvements Seen In Efforts To Collect Debt Owed The Federal Government (Apr. 28, 1983)
GAO/FGMSD 78-50	The Government Can Be More Productive In Collecting Debts By Following Commercial Practices (Feb. 23, 1979)

VI. GAO CONTACT

John Simonette 275-9489

ASSET 11: DIRECT LOAN PRICING--FEES

I. PPSSCC ISSUE AND SAVINGS

"Should federal lending agencies charge fees for direct loan origination, servicing, and delinquency?"

If these fees were assessed, a potential exists for a 3-year cumulative reduction in the deficit of $2.886 billion from increased revenue/receipts and interest earnings.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC recommendations in this issue area concern charging interest and penalties on delinquent loans, decreasing the current definition of delinquency from 30 days past due to 15 days past due, and charging nonrefundable loan application and origination fees for all loan applications.

The recommendation regarding interest and late payment penalties on past due debts is consistent with current provisions in the Federal Claims Collection Standards and Treasury Financial Manual. Subsequent to completion of PPSSCC's review, the Debt Collection Act of 1982 (Public Law 97-365) was enacted. Section 11 of the act requires the assessment of interest on all types of debts past due. PPSSCC also recommends charging late payment penalties in addition to assessing interest on amounts past due. Section 11 of the act requires assessment of penalties and administrative cost on all delinquent debts owed the government. In addition, the act outlines the procedures to be followed by federal agencies in assessing these charges. In March 1984, GAO and the Department of Justice issued revised Federal Claims Collection Standards to reflect the changes set forth in the act.

Collection Standards describes "delinquency" as occurring if payment is not made by the "date due" as specified in a demand letter. Section 11 of the Debt Collection Act of 1982 states that interest shall begin to accrue when notification in the form of a demand letter is mailed. However, interest shall not be collected if the amount due is paid within 30 days after the individual has been notified. Further, section 11 specifically states that interest, penalties, and administrative cost shall not apply if the authorizing legislation, regulation or loan agreement prohibits the assessment of these charges or explicitly fix the amount that can be assessed. Therefore, the implementation of PPSSCC's recommendation to redefine delinquency date would not be possible without

amending the Debt Collection Act of 1982. In addition, GAO has not performed sufficient work to evaluate the merits of PPSSCC's recommendation that a nonrefundable application or origination fee be assessed on all loans to initiate and service the loans.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The Debt Collection Act of 1982 currently being implemented by federal agencies requires the assessment of interest, penalty, and administrative cost on all delinquent nontax debts owed the government--including direct loan programs as specified by PPSSCC. Within constraints imposed by the statute, the "User-Charge" statute (31 USC 9701) would allow federal lending agencies to impose a fee to recoup loan origination costs.

IV. GAO ANALYSIS OF PPSSCC SAVINGS ESTIMATE

GAO has not estimated the amount of savings that can be achieved by assessing interest and penalties on delinquent debts and assessing a nonrefundable application fee for direct federal loans. GAO believes that the assumptions used by PPSSCC to project its savings appear reasonable. However, there may be additional cost incurred for equipment and personnel to implement this proposal, partially offsetting any savings.

It is reasonable to assume that, with the assessment of interest and penalties, delinquencies will decline because borrowers will have an incentive to repay monthly loans owed the government. GAO has previously reported that not charging interest on delinquent debts serves as a disincentive for borrowers to repay amounts owed. In regard to loan origination fees for initiation and servicing of loans, GAO is not in a position to comment on the projected 3-year savings of $514 million.

V. RELEVANT GAO reports

GAO/AFMD 83-57	Significant Improvements Seen In Efforts To Collect Debts Owed The Federal Government (Apr. 23, 1983)
GAO/AFMD 78-59	The Government Can Be More Productive In Collecting Its Debts By Following Commercial Practices (Feb. 23, 1979)
GAO/FGMSD 78-61	The Government Needs To Do A Better Job Of Collecting Amounts Owed By The Public (Oct. 20, 1978)

VI. GAO CONTACT

John Simonette 275-9489

ASSET 12: CREDIT PROCESSING

I. PPSSCC ISSUE AND SAVINGS

"How can the federal credit process be made more efficient?

Improving the federal government's credit process by which it grants, services, and collects its direct loans can result in decreased default rates and subsequent charge-offs. Reductions in default would have a 3-year cumulative benefit of $5.572 billion in accelerated revenue plus $1.010 billion in interest savings; totaling $6.582 billion.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

PPSSCC recommendations include such areas as;

--developing private sector loan models,

--establishing a centralized credit department in each agency, and

--developing uniform credit definitions, and management information systems.

The PPSSCC recommendations would improve the government's credit process--that is the methods used to make and collect amounts it is owed for direct loans. Improvements in these areas would provide federal agencies better information to evaluate the status of the loans it has made, and thereby help reduce default rates and subsequent write-offs.

The recommendations are feasible and the implementation would provide a business-type environment to the government's credit processing. In essence, the recommendations are to develop and use good management practices and, accordingly, be consistent in concept with GAO's traditional positions. It must be recognized however, that the federal credit process, including direct loan programs, is intended to fill a recognized social need. As a result, more lenient and flexible credit extension and servicing terms are available in the public sector than in the private sector.

OMB has also recognized that problems exist in the government's credit processing and has assigned various agencies specific responsibilities for developing pilot projects for issues such as the development of credit standards and automated collection systems. GAO's report

"Significant Improvements Seen In Efforts To Collect Debts Owed The Federal Government (AFMD-83-57, Apr. 28, 1983) discusses in detail each agency's specific responsibilities in developing the pilot projects. Lead agency responsibilities for these new efforts include designing a pilot project, developing a work plan with milestones and target dates, and reporting project status to OMB.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with PPSSCC that improving loan management practices within each agency could generally be implemented administratively. Many of the recommended activities are already priorities for several agencies. For example, the Department of Education has created a credit department to oversee collection of student loans, and the Departments of Agriculture and of Housing and Urban Development are automating manual records and updating computer equipment. How long it will take to complete this task throughout the government is uncertain. GAO believes that agencies should develop and be held to a reasonable schedule for implementing effective accounting systems. To the extent that implementing the PPSSCC proposals would require additional resources -- funding and personnel -- congressional approval would be needed.

In GAO's opinion, meeting the administration's future goals of improving credit processing and loan management will require OMB's continued attention, as well as sustained improvement in federal agencies' collection efforts. Because debt collection problems did not develop overnight, resolving such long-standing needs as better accounting systems, which contributes to these problems, will take time. A great deal remains to be done, especially regarding the need to design new automated accounting systems.

IV. GAO ANALYSIS OF PPSSCC SAVINGS ESTIMATE

In the GAO and CBO joint study titled "Analysis of the Grace Commission's Major Proposals on Cost Control" (February 1984), CBO estimated for the PPSSCC's proposals no savings were associated with this issue area. The report states that the savings estimate may be too optimistic given that many government lending programs are intended to meet credit needs different from those provided by the private sector. There may also be additional costs for equipment and personnel to implement this proposal, partially offsetting any savings. Thus, the savings from the proposal are highly uncertain.

V. RELEVANT GAO REPORTS

GAO/AFMD 83-57	Significant Improvements Seen In Efforts To Collect Debts Owned The Federal Government (Apr. 23, 1983)
GAO/FGMSD 78-59	The Government Can Be More Productive In Collecting Its Debts by Following Commercial Practices (Feb. 23, 1979)
GAO/FGMSD 78-61	The Government Needs To Do A Better Job Of Collecting Amounts Owed By The Public (Oct. 20, 1978)

VI. GAO CONTACT

John Simonette 275-9489

ASSET 26: FEDERAL DEBT COLLECTION MANAGEMENT

I. PPSSCC ISSUE AND SAVINGS

Can the government's collection efforts be better managed and more efficiently organized in order to improve its debt collection efforts?

"Three-year cumulative accelerated revenues/receipts of $4.6 billion, plus a slowing of delinquent debt of $3.5 billion, and reduced interest costs/outlays of $1.191 billion have been identified for a total of $9.291 billion reduction in the budget deficit."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC recommendations calls for improvements in the government's debt collection and related accounting and reporting. The basic thrust of PPSSCC's recommendations are to promote economy and efficiency in the government's debt collection efforts. The recommendation is to develop and use sound business practices and, accordingly, is consistent in concept with positions traditionally held by GAO.

GAO has long called for strengthened government debt collection. In October 1978, GAO reported on the results of a governmentwide review which pointed out that the government was not doing an effective job of accounting for and collecting its debts ("The Government Needs To Do A Better Job Of Collecting Amounts Owed By The Public", FGMSD-78-61). In addition, GAO has continually testified in support of debt collection legislation aimed at improving debt collection in the federal government. The PPSSCC recommendations are generally in line with the recommendations that GAO has made in the debt collection area.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with PPSSCC that the recommendations can be achieved through administrative action. However, associated with these recommendations is the possible need of additional funding to obtain state-of-the-art computers and related services necessary to use the equipment effectively.

If the necessary funds are received, it is difficult to specify how long it will take to develop and implement an efficient, effective, and economical accounting and related debt collection system. In this regard, however,

agencies should be required to develop and be held to an implementation schedule that would detail the time frames for developing and implementing an effective accounting and related debt collection system.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC estimates that the proposed improvements would prevent some delinquencies as well as increase collections of delinquent debts owed the federal government. These estimates may be optimistic. Allowance should be made for planning and implementation time lags, as well as additional costs requiring congressional action. As stated above, there may be additional costs for equipment and personnel to implement this proposal, partially offsetting any savings.

V. RELEVANT GAO REPORTS

GAO/AFMD 83-57	Significant Improvements Seen In Efforts To Collect Debts Owed The Federal Government (Apr. 23, 1983)
GAO/FGMSD 78-59	Government Can Be More Productive In Collecting Its Debts By Following Commercial Practices (Feb. 23, 1979)
GAO/FGMSD 78-61	The Government Needs To Do A Better Job Of Collecting Amounts Owed by The Public (Oct. 20, 1978)

VI. GAO CONTACT

John Simonette 275-9489

ASSET 27: INTERNAL REVENUE SERVICE (IRS) REFUND OFFSET

I. PPSSCC ISSUE AND SAVINGS

PPSSCC believes debts owed the government should be offset against Internal Revenue Service (IRS) tax refunds.

"Three-year cumulative accelerated revenues/receipts of $1.930 billion and reduced interest cost/outlays of $.397 billion have been identified for a reduction of the budget deficit of $2.327 billion."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATION

GAO in two reports and numerous testimonies has encouraged and supported the use of IRS offset to collect nontax delinquent debts owed the government. GAO's review showed that many debtors who refuse to pay amounts due the government receive a federal tax refund. Because collection by reducing tax refunds can be economically feasible, this collection method should be tested as a final administrative attempt to recover amounts due the government from those who have successfully evaded agency collection efforts.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The passage of the Deficit Reduction Act of 1984 (Public Law No. 98-369) provides new and specific statutory authority concerning offsets against income tax refunds. The legislation was signed into law in July 1984. PPSSCC concluded that legislative and executive action was necessary but its analysis of the issue was performed prior to enactment of the legislation. At the present time, GAO and PPSSCC agree that executive action is still necessary for the successful implementation of the law. Section 2653 of this act requires federal agencies to refer debts owed to the United States to IRS so that it may take offset action against any income tax refunds that may be owed to the debtor. Specific procedural requirements are set out in section 2653. The Secretary of the Treasury is required to issue regulations to implement this section and is authorized to test the offset procedures with selected programs before proceeding to full implementation.

The PPSSCC recommendation is feasible and can be implemented. However, GAO's support of the IRS offset should be viewed in light of two important qualifiers. First, GAO's support of the IRS offset should not be

interpreted as a recommendation that the IRS become a debt collection "clearinghouse." Debt collection is the primary responsibility of each federal agency. It is incumbent upon top management of each agency to establish debt collection as a priority and to ensure that the debt collection initiatives underway and planned are successfully implemented. GAO believes effective arrangements for using IRS offset to collect nontax debts can be worked out on the basis of interagency agreements between IRS and the federal agencies wishing to refer debts for offset.

Second, GAO is concerned that little quantifiable evidence is available to address the impact of IRS' involvement in non tax administration activities could have on voluntary compliance with the tax system--a system that produced more than $600 billion in revenue for 1984. The most current evidence, a recent IRS study, indicated that the refund offset program for delinquent child support payments resulted in a significant increase in non-filers and thus had a measureable adverse impact on taxpayer compliance. Thus, in testing the program, Treasury should attempt to include an analysis of the effects of offsets on compliance with the tax system.

IV. GAO ANALYSIS OF SAVINGS

In a joint GAO/CBO study issued in February 1984, CBO estimated that savings from this proposal would be approximately $2.4 billion, excluding interest savings. Collections out of this sum, and out of projected future additions to this category of debt, were assumed to be spread over 5 years. A 1979 GAO study concluded that, for a sample of debts totaling $413,000, up to 36 percent could have been collected over a 2-year period using a tax refund offset. As of September 30, 1983, the total nontax debt delinquent by at least 360 days was about $11 billion. Collections out of this sum, and out of projected future additions to this category of debt, were assumed to be spread over 5-years.

PPSSCC estimates about the same savings--$2.3 billion--but in a 3-year period, including interest savings. PPSSCC's estimate includes a percentage of debt delinquent under 360 days past due, is based on debts outstanding as of June 1982, and assumes that collections are made within 3-years.

V. RELEVANT GAO REPORTS

GAO/FGMSD-80-68 Oregon's Offset Program For Collecting Delinquent Debts Has Been Highly Effective (Jul. 17, 1980)

GAO/FGMSD-79-19	The Government Can Collect Many Delinquent Debts By Keeping Federal Tax Refunds As Offsets (Mar. 9, 1979)

VI. GAO CONTACT

John Simonette 275-9489

ASSET 28: OUTSIDE COLLECTION EFFORTS

I. PPSSCC ISSUE AND SAVINGS

Should collection agencies and credit bureaus be used to supplement the collection and credit-granting efforts of the Government?

PPSSCC identified a three-year cumulative accelerated revenues/receipts of $1.489 billion and reduced interest costs/outlays of $307 million, for a total reduction of the budget deficit of $1.796 billion.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO agrees with the PPSSCC that credit bureaus and--if appropriately justified and controlled--private collection agencies should be used to supplement the collection and credit-granting efforts of the government. The PPSSCC's recommendations are consistent with prior GAO recommendations that the government follow commercial practices in collecting debts; that legislation, if needed, be introduced to allow credit bureaus to redisclose student loan default data provided by the Government; and that the utilization of private collection agencies be monitored to insure that their use is the most cost-effective means of collecting defaulted student loans.

The PPSSCC's recommendations are also consistent with Federal Claims Collection Standards issued jointly by the Comptroller General and Attorney General which provide that agencies (1) are required to develop and implement procedures for reporting delinquent debts to commercial credit bureaus and (2) should consider contracting for collection services providing the agencies retain the ultimate responsibility for debt collection. The Federal Claims Collection Standards have been amended to reflect the passage of the Debt Collection Act of 1982 which also authorizes the use of private debt collection and consumer credit reporting agencies.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

As noted above, some of the actions proposed by the PPSSCC have already been implemented. The proposal that legislation be enacted to allow credit bureaus to receive debtors' addresses from IRS and redisclose them for credit-granting purposes would require consideration of a number of "privacy" issues.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC did not develop savings estimates related to its recommendation that the government utilize the services of credit bureaus. Regarding its recommendation that the government utilize private sector collection agencies, the PPSSCC estimated three-year cumulative accelerated revenues/receipts of $1.489 billion and interest savings of $307 million. Because the PPSSCC did not describe the basis for certain assumptions used to arrive at the accelerated revenues and savings estimates, GAO was unable to assess the reasonableness of the estimates.

V. RELEVANT GAO REPORTS

GAO/AFMD-83-57	Significant Improvements Seen In Efforts to Collect Debts Owed the Federal Government (Apr. 28, 1983) (See Appendix II for list of prior GAO reports on debt collection)
GAO/HRD-81-124	Stronger Actions Needed to Recover $730 Million in Defaulted National Direct Student Loans (Sept. 30, 1981)
GAO-FGMSD-78-59	The Government Can be More Productive in Collecting Its Debts by Following Commercial Practices (Feb. 23, 1979)

VI. GAO CONTACT

Joseph Eglin, Jr. 245-9623

ASSET 29: DELINQUENT DEBT INTEREST AND PENALTY CHARGES

I. PPSSCC ISSUE AND SAVINGS

"Should the government charge interest and penalties on delinquent debt and ensure that such charges are actually assessed and paid?"

"Three-year cumulative accelerated revenue/receipts of $1,085 million have been identified."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATION

From an overall perspective, GAO agrees with the PPSSCC findings and recommendation that all delinquent debts owed the government should be charged interest and penalties. This is in line with GAO's previous recommendations. GAO believes implementation of the recommendation will help reduce delinquent debts owed the government.

Historically, agencies have not assessed interest on delinquent debts, even though required to do so by the Federal Claims Collections Standards. As a result, borrowers had no incentive to repay their debts. The passage of the Debt Collection Act of 1982 now requires agencies to assess interest, penalties, and administrative cost except in certain specified circumstances. Assessing these charges will add incentive for borrowers to repay their debts more rapidly.

Since October 1978 when GAO's first report on debt collection titled "The Government Needs To Do A Better Job Of Collecting Amounts Owed By The Public" (October 20, 1978, FGMSD-78-61) was issued, GAO has frequently recommended that federal agencies charge interest on delinquent debts. However, as stated in GAO's March 1981 report "Improved Administrative Practices Can Result in Further Budget Reduction" (PAD-81-69), the charging of interest, although required by federal regulations was generally not being complied with.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

PPSSCC expressed the view that legislative and administrative action was necessary for the effective implementation of its recommendation. Subsequent to the completion of the PPSSCC study, legislation-- the Debt Collection Act of 1982-- was passed requiring agencies to assess interest, penalties, and administrative cost on delinquent debts 90 days past due. However, section 11 of the act specifically states that interest, penalties and

administrative cost shall not apply if authorizing legislations, regulation, or loan agreement prohibit the assessment of the charges or explicitly fix the amount that can be assessed. Therefore, for accounts not covered by the act, specific legislation and penalties would probably be necessary to implement the recommendation. PPSSCC recommends adding these charges immediately. The Debt Collection Act of 1982 requires that personal notice be given prior to assessing these charges. GAO assumed that any new legislation authorizing interest and penalty charges would impose a similar requirement.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC 3-year projected savings of $1,085 million results from assessing interest on delinquent debts owed the government. PPSSCC clearly states that the savings calculations consider only the interest revenue from charging interest on the average delinquent debts outstanding, assuming that debts owed the government have been reduced as provided for in other sections of the PPSSCC report. However, there may be additional cost for equipment and personnel to implement this proposal, partially offsetting the projected savings.

V. RELEVANT GAO REPORT

GAO/AFMD 83-57	Significant Improvements Seen In Efforts To Collect Debts Owed The Federal Government (Apr. 28, 1983)
GAO/FGMSD 78-61	The Government Needs To Do A Better Job Of Collecting Amounts Owed By The Public (Oct. 20, 1978)

VI. GAO CONTACT

John Simonette 275-9489

COMM 5: EDA DEBT COLLECTION

I. PPSSCC ISSUE AND SAVINGS

Can the Economic Development Administration (EDA) take actions which will decrease the number of delinquent loans in its $1 billion business loan and loan guarantee portfolio?

PPSSCC estimated that improvements in the debt collection process could result in increased collections in the range of $5 million per year for at least the next three years.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

In 1981, EDA awarded a consulting contract to determine the overall status of its loan portfolio totaling about $1.1 billion. That study showed that a large percent of the portfolio was of very low quality. For example, the consultant found that as of June 30, 1981, $197 million, or about 18.6 percent, of EDA's loan portfolio was in liquidation and another $190 million, or about 18 percent, was either in "special servicing" or was delinquent more than 60 days with irregular or no payments during the last year. In assessing EDA's debt collection process, PPSSCC concluded, among other things, that:

--processing new loans interferes with collecting and servicing of existing loans.

--site visits can provide valuable information on business status and help identify potential problems.

--EDA lacked formal loan administration procedures and needed better documentation practices.

--EDA performed inadequate financial analysis before and after loan approval.

GAO, in its report on EDA's Trade Adjustment Program, found many of the same weaknesses in the loan approval and loan servicing activities.

PPSSCC made nine recommendations for improving debt collection activities, including separating credit granting and credit collecting functions, using paraprofessionals to perform low-level tasks, implementing loan risk criteria, increasing financial analysis, and returning loan approval authority to the regions. PPSSCC noted that several of the recommendations would be applicable only if EDA is given new budget authority for business loans. GAO believes that the recommendations are consistent with

sound management principles and supports the recommendations that EDA should increase emphasis on loan administration and debt collection.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO believes that EDA has ample authority to implement PPSSCC's recommendations. The Department of Commerce, including EDA, is participating in the government-wide debt collection program established by OMB. Also, EDA has increased its efforts to bring loans current and has conducted one bulk sale and several individual sales of loans from its portfolio.

IV. GAO ANALYSIS OF SAVINGS ESTIMATES

PPSSCC recognized that, while proper implementation of its recommendations would increase debt collection, the recommendations are not of the type where a specific impact can be readily estimated. In spite of that PPSSSCC estimated that EDA could save $15 million over a 3 year period through improving its debt collection process.

GAO believes that the recommendations are consistent with sound management principles and their implementation will result in savings to the Government. However, GAO agrees with PPSSCC that the recommendations are not of the type where a specific dollar impact could be readily estimated. Accordingly, GAO has no position as to the reasonableness of the $15 million, 3-year savings estimate.

V. RELEVANT GAO REPORTS

GAO/CED-82-58 Management of Trade Adjustment Program Shows Progress (Apr. 2, 1982)

VI. GAO CONTACT

John Luke 275-6111

FINANCE 4: DEBT COLLECTION

I. PPSSCC ISSUE AND SAVINGS

"What steps does the federal government need to take in order to bring its debt collection efforts in line with acceptable business practices?"

The savings related to this issue area are discussed in the Financial Asset Management Task Force Report, Asset 26 - Debt Collection Management.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC made five specific recommendations:

--accelerate the timetable for the implementation of new accounting and debt collection systems,

--establish performance standards in debt collection,

--establish a permanent debt collection staff within the Office of Federal Management, which was proposed by the PPSSCC,

--exert more pressure on private institutions to up grade the quality of their collection effort, and

--enact legislation to provide for the offset of delinquent nontax debts against federal tax refunds.

GAO agrees with the basic thrust of these recommendations because they are generally in accord with numerous recommendations GAO has made to improve debt collection in the federal government.

GAO has long supported the need for improved systems in order to better record, track, and monitor the status of debts owed the government. Without this data, the agencies are unable to ascertain the status of debts owed the government. Further, this data is essential for each agency to implement effectively the provisions of the Debt Collection Act of 1982.

In addition, we have previously recommended that IRS be permitted to offset debts owed the government against federal tax refunds. Further, in our report "Actions Underway To Reduce Delinquencies In The Health Professions And Nursing Student Loan Programs," we recommended that delinquency-rate standards be established for the programs. The Department of Health and Human Services subsequently acted upon our recommendation.

Aside from the issue of establishing an Office of Federal Management, we believe that, from a pure business perspective, debt collection would be greatly enhanced if the effort was centralized--at least within each department--from a policy perspective. At the present time, as pointed out by PPSSCC, the debt collection function is somewhat disjointed in some agencies. Further, some agencies do not have standard debt collection procedures and, therefore, each group within an agency may operate differently.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND SATUS

The PPSSCC's recommendations are feasible and are currently being acted upon by OMB under its "Reform 88" initiatives. OMB is addressing the credit management area, which covers all facets of the credit approval and debt collection process. GAO agrees with the PPSSCC view that its recommendations can be implemented through administrative action, though the recommendation for a permanent debt collection staff is dependent on legislation establishing an Office of Federal Management.

In regard to accelerating system development efforts, GAO strongly supports the idea that effective and efficient debt collection systems should be implemented as soon as possible. However, if the system implementation time frames are to be shortened, a high-priority, sustained effort is necessary in order to ensure that the new systems produce accurate and reliable data. Often times agencies will devote considerable resources--personnel and oney--to design and implement systems on a "fast track." In such cases, GAO has sometimes found that, although the system is operational, it is not capable of performing the functions as management intended.

In regard to the use of IRS offset, the Congress recently passed legislation authorizing such a program. The President signed the legislation into law on July 18, 1984.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The Financial Management in the Federal Government Task Force Report states that savings from the implementation of these recommendations are included in the savings related to Asset-26--Debt Collection Management, discussed in the Financial Asset Management Task Force Report.

V. RELEVANT GAO REPORTS

GAO/AFMD 83-57 Significant Improvements Seen In Efforts To Collect Debts Owed The Federal Government (Apr. 28, 1983)

GAO/AFMD 83-7	Actions Underway To Reduce Delinquencies In The Health Professions And Nursing Student Loan Programs (Dec. 1, 1982)
GAO/PAD 81-69	Improved Administrative Practices Can Result In Further Budget Reductions (Mar. 30, 1981)
GAO/FGMSD 79-19	The Government Can Collect Many Delinquent Debts By Keeping Federal Tax Refunds As Offsets (Mar. 9, 1979)

VI. GAO CONTACT

John Simonette 275-9489

PHS 7A: NATIONAL HEALTH SERVICE CORPS DEBT MANAGEMENT

I. PPSSCC ISSUE AND SAVINGS

"Can monitoring efforts and collection procedures be enhanced to increase revenue received from health care institutions for services rendered by National Health Service Corps (NHSC) personnel?"

The PPSSCC estimates interest cost savings of $4.6 million over a 3-year period would result from an increase in debt collections of $21.7 million over a 3-year period.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The NHSC was established in 1970 to place health care professionals in Health Manpower Shortage Areas (HMSAs). In 1972 this program was complemented when the National Health Service Scholarship program was established to provide financial assistance to medical students in exchange for obligatory service in the NHSC with mandatory assignment to health care institutions in HMSAs after graduation. HHS bills these health care institutions for the services rendered by the NHSC personnel. PPSSCC reported that HHS collections of amounts due the government have not kept pace with the billings. For example, PPSSCC estimated that only about 10 percent of the approximate $100 million billed in 1981 was collected.

GAO agrees that HHS needs to increase its effort to collect revenues owed it for services rendered by NHSC personnel. GAO believes that, for the most part, the PPSSCC recommendations which address increased monitoring efforts and improved collection procedures are reasonable and should serve to increase revenues collected. HHS has indicated agreement or agreement in principal with most of these recommendations. HHS does not agree with the PPSSC recommendations addressing the recruitment and placement of scholarship recipients since no new scholarships are being awarded and none are planned.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

PPSSCC made a number of recommendations to enhance the likelihood of regional office success in increasing collection on bills that have been rendered. HHS has agreed with most of these recommendations and has the necessary legislative authority to implement them. HHS has reported that aggregate receivables have been reduced from $28.7 million to $13.7 million and NHSC site

collection procedures have been strengthened. According to PHS, policies have also been revised requiring all sites with NHSC personnel to reimburse the government for services rendered within 45 days from the end of each billing period. In addition, such personnel will be either removed or not replaced at the location if the bill is not paid. HHS disagreement with two of the PPSSCC recommendations dealing with regional office recruitment and placement of NHSC personnel would not in GAO's view, adversely affect the overall objective of improving the debt collection activities.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC savings estimates were based on increased collections from bills that had not yet been verified but may be collectible, improvements in the billing policies and procedures and reduced interest cost. HHS has implemented most of the PPSSCC recommendations and the Inspector General of HHS is planning to assess the impact of the improvements made in the billing process.

V. RELEVANT GAO REPORTS

GAO/HRD-81-90 GAO Staff Study-Reimbursement for National Health Service Corps Personnel (Jun 4, 1981)

VI. GAO CONTACT

David Baine 275-6207

HUD 3: DEBT COLLECTION MANAGEMENT

I. PPSSCC ISSUE AND SAVINGS

"Can the debt collection performance of the Department of Housing and Urban Development (HUD) be improved?

Through reorganization, procedural, accounting, and automated data processing (ADP) changes, collections would be increased by approximately $134.2 million in the first full year after implementation. Three-year cost savings of $49.4 million plus revenues of $19.3 million would result."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

To improve the debt collection performance of the Department of Housing and Urban Development, PPSSCC recommended that greater use be made of outside contractors in the debt collection management process. PPSSCC recommended that consideration be given to

--contracting with private vendors for automated data processing of receivables,

--assignment of existing portfolios of closed-out accounts to private collection agencies, and

--proceeding as soon as possible with the award of HUD's pending nationwide loan servicing and accounting contract for multifamily mortgages.

GAO has not performed sufficient work relating to the first two recommendations and therefore, is unable to judge the merits of the recommended actions. However, GAO has issued several reports relating to the third issue concerning the adequacy of HUD's loan servicing and accounting activities for multifamily mortgages.

GAO made numerous recommendations in these reports for improving HUD's servicing and accounting functions. According to HUD, GAO's findings were, in part, the impetus that resulted in them awarding a demonstration contract in December 1981 with a private mortgage firm to perform loan servicing and accounting functions for HUD multifamily mortgages in its Region III area.

In March 1983 GAO issued a report on HUD's award and administration of its demonstration contract and the planned expansion of this contract on a nationwide basis. Although GAO agreed that there was merit in exploring the private sector servicing approach, GAO questioned several aspects of HUD's award and administration of the demonstration contract. Among other things, GAO found (1) no documented evidence that HUD considered the income accruing to the

contractor from holding escrow funds for the mortgages in determining the contractor's fees, and (2) that HUD had not established an adequate basis for evaluating the contractor's performance in relation to its past collection performance.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

In July 1984, the contractor selected by HUD for the award of the nationwide loan servicing contract notified HUD that it was withdrawing from the proposed contract. The contractor said there was no need to grant a nationwide contract to solve the problems with servicing the portfolio and recommended HUD take certain steps to allow the servicing to be handled in-house.

HUD informed GAO that in light of this development and other factors it was not awarding the nationwide contract as planned. Instead, HUD plans to improve its computerized accounting systems and retain the performance of the loan servicing and accounting functions in-house.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO questions the $16.9 million of savings from increased collections PPSSCC estimated would result from a nationwide contract for private sector servicing of multifamily mortgages. The estimate for increased collections was projected on the basis of an interim study comparing the performance of the demonstration contractor to prior HUD performance over a period of 4 months -- a study that GAO concluded did not represent a logical and consistent basis for comparison and that contained numerous inaccuracies.

V. RELEVANT GAO REPORTS

GAO/RCED-83-78	HUD's Loan Servicing Contracts For Multifamily Mortgages Need Better Management (March 14, 1983)
GAO/AFMD-82-18	Problems Continue In Accounting For And Servicing HUD-Held Multifamily Mortgages (Aug. 18, 1982)
GAO/FGMSD-80-43	HUD Should Make Immediate Changes In Accounting For Secretary-Held Multifamily Mortgages (May 16, 1980)
GAO/CED-80-43	Analysis Of Multifamily Assigned Mortgages (Jan. 16, 1980)

VI. GAO CONTACT

John F. Simonette 275-9490

INT 7: DEBT COLLECTION IN BIA

I. PPSSCC ISSUE AND SAVINGS

"Can the collection of delinquent loans and disallowed costs (e.g., those not allowed by statute, regulation, or contract provision) owed to the Bureau of Indian Affairs (BIA) reduce borrowing costs to the Treasury?"

"Reduced interest of $3.6 million over 3 years can result from a cash acceleration of $10.6 million. Filling the currently vacant position of Chief, Division of Financial Assistance at an annual cost of approximately $69,000 could potentially avoid costs of $5.6 million annually through improved loan program controls."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC report on the issue of debt collection at BIA covers disallowed costs under contracts and grants with Indian tribes and loans made to tribes and individual Indians and makes three recommendations to (1) hold back monies on contracts and grants pending final contract and grant closeout, to help ensure the recovery of disallowed costs, (2) appoint a Chief of the Division of Financial Assistance to strengthen collection of loans, and (3) enhance the Inspector General's (IG's) audit follow-up system to help ensure that audit findings are corrected.

The PPSSCC's recommendations to strengthen collection of disallowed costs under contracts and grants appear to have merit with the exception of the recommendation to hold back monies on contracts with Indian tribes. The provisions of title 25 of the Code of Federal Regulations relative to contracts with Indian tribes under the Indian Self-Determination and Education Assistance Act limit the right of the government to recover unused funds under these contracts.

Under the Indian Self-Determination and Education Assistance Act, the Bureau of Indian Affairs (BIA) may issue a grant to a tribe to provide the tribe with resources to train its members to carry out a program on the reservation--for example, an adult training program. At the end of the grant period, title 25 of the Code of Federal Regulations (CFR) provides that any unused funds advanced to an Indian tribe under a grant shall be immediately refunded to BIA (25 CFR Section 276.15), and BIA shall make a settlement for, and recover the funds related to, disallowed costs. A 5-10 percent holdback of monies under the grant could help in recovering unused grant funds and payments made for disallowed grant expenditures.

Under the Indian Self-Determination and Education Assistance Act, BIA may also issue a contract to an Indian tribe to carry out, on a fully independent basis, a program on a reservation which would normally be carried out by BIA. These programs include, for example, law enforcement, construction, and social service programs. Title 25 of the CFR does not require that unused spending authority made available to an Indian tribe be recovered by the government at the end of the contract period. Rather, the CFR provides that unused spending authority may be used to provide additional services or benefits under the contract, or may be carried over into the succeeding fiscal year. However, amounts carried over shall not reduce the amount that would been available in the succeeding year if there had been no carryover, but rather shall be added to the contract amount for that year (25 CFR Section 271.55).

With regard to disallowed costs under a contract, the rights of the government to recover contract payments made for costs ultimately disallowed are not addressed in the BIA regulations and presumably would be determined under the terms of the contract. The Indian Self-Determination and Education Assistance Act, however, specifies that unused funds under a contract with an Indian tribe do not revert to the government. Until the Congress changes the provisions of the Act regarding unused contract funds, a 5-10 percent holdback of funds under a contract does not appear to ensure the recovery of disallowed costs under contracts with Indian tribes.

Concerning the PPSSCC's recommendations to hold back monies under contracts and grants, BIA's primary tools for monitoring contractors' and grantees' drawdown and use of funds are (1) Treasury's cash management requirements and (2) BIA's administrative requirements for contracts and grants. Specifically, Treasury's requirements limit the amount of cash contractors and grantees can hold at any given time--3-day cash supply under a letter of credit--and require reports to the cognizant agency on advances and uses of cash. BIA's administrative requirements call for contractors and grantees to report monthly and quarterly on cash advances received and disbursements made. The recommendation to hold back monies under contracts and grants pending final contract and grant close-out would be add-ons to BIA's primary tools.

Overall, GAO agrees that implementing a 5-10 percent holdback for grants will provide an additional tool in recovering unused grant funds and payments made for disallowed costs. It is uncertain what effect a holdback of funds would have on contracts because, by law, unused

contract funds do not revert to the government at the end of the contract and may be carried over to the next year.

The rights of the government to recover contract payments made for disallowed costs would have to be determined under the terms of the contract. Until congress changes the provisions of the Indian Self-Determination and Education Assistance Act relative to unused funds under contracts with Indian tribes, it does not appear that a 5-10 percent holdback of funds under contracts will ensure that the government will recover disallowed costs.

PPSSCC's second recommendation requires the Secretary of the Interior to fill the position of Chief of the Division of Financial Assistance and to direct this individual (or the assistant secretary until this position is filled) to begin immediately all necessary actions to cancel loans which are not collectible and initiate appropriate legal action against delinquent parties. The direction should include a comprehensive review of deficient loans and include a matching of factors found in the review with loan approval procedures. The objectives are to spot and stop potential "troubled" loans before they are made. In addition, monitoring of loan repayment activity should be active and aggressive. Foreclosure steps should begin quickly to protect the government's interests.

The recommendation to fill the position of Chief of the Division of Financial Assistance will not, in and of itself, ensure that controls over loans will be enhanced. Simply put, appointing a chief will not guarantee that this individual will put into place systems and procedures to manage effectively loans and loan guarantees. The recommendation that the secretary direct either a newly appointed chief or the appropriate assistant secretary to begin all needed actions to protect the government's interest relative to loans and loan guarantees is a viable recommendation. Actions should be taken to (1) recover to the extent practicable delinquent loans, and (2) prevent the issuance of questionable loans in the first place.

With respect to PPSSCC's third recommendation to strengthen the IG's audit follow-up system, GAO agrees that, on a general basis, any system that provides for improved tracking of audit findings, recommendations, and corrective actions will provide management with a viable tool for ensuring that all appropriate actions are taken on all audit recommendations. From this perspective, this recommendation has merit.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with PPSSCC that implementation of these recommendations is within the authority of the Department of Interior and BIA except for the holdback of 5-10 percent of funds under contracts with Indian tribes. Specifically:

--The implementation of a 5-10 percent holdback of final payments, under grants under the Indian Self-Determination and Education Assistance Act, should be within the authority of the Bureau of Indian Affairs and should be feasible to be implemented. BIA has not acted to implement this recommendation.

--The implementation of a 5-10 percent holdback of final payments under contracts under the Indian Self-Determination and Education Assistance Act does not appear to ensure the recovery by the government of disallowed costs. The law specifies that unused contract funds do not revert to the government but remain available to the tribe. Until Congress changes the law, this recommendation does not appear feasible to implement.

--Appointment of a Chief of the Division of Financial Assistance can be accomplished at the executive direction of the Secretary of the Interior. In responding to the PPSSCC report, Interior stated that it has filled the position of BIA's Chief of the Division of Financial Assistance.

--The implementation of a project to enhance the Inspector General's Management Information System is within the authority of the Department of the Interior, and, consequently, the feasibility of implementing this recommendation should be assured. The Department of the Interior, in commenting on the PPSSCC report, stated that the Bureau of Indian Affairs is planning its own audit report follow-up system.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC report did not detail how the projected savings of $3.6 million was computed. Further, our prior work relating to BIA's accounting systems showed that these systems produce unreliable information. In addition, in view of the provisions of 25 CFR concerning the rights of the government to recover unused spending authority and/or disallowed costs under a contract with an

Indian tribe, it is not possible to evaluate the PPSSCC's $3.6 million estimate of savings to accrue to the government by the adoption of its recommendations. The Bureau of Indian Affairs, however, in responding to the PPSSCC report stated that the White House Office of Cabinet Affairs showed a savings of $3.1 million by holding back final grant and contract payments.

The cost estimate to fill the position of Chief of the Division of Financial Assistance appears reasonable. However, the simple appointment of an individual to a top executive position will not, in and of itself, guarantee that systems and procedures will be put into place to manage effectively loans and loan guarantees. Consequently, we cannot comment that filling this position will result in $5.6 million in avoided costs under BIA's loan programs.

If BIA's current systems for loans and loan guarantees are not adequate and need strengthening, then these systems may have to be completely redesigned at a substantial cost. This system redesign cost would have to be considered in estimating the savings to accrue to the government as a result of implementing the recommendation. In addition, implementing this recommendation may also require hiring additional staff to assist the Chief of the Division of Financial Assistance, and their salaries would have to be considered as a cost of implementing this recommendation.

The PPSSCC attached no savings estimate to its recommendation to enhance the IG's Management Information System.

V. RELEVANT GAO REPORTS

GAO/AFMD 82-71	Major Improvement Needed In The Bureau Of Indian Affairs' Accounting System (Sept. 8,1982)

VI. GAO CONTACT

John Simonette 275-9489

JUST 1: UNCOLLECTED REVENUES

I. PPSSCC ISSUE AND SAVINGS

"Can the Department of Justice (DOJ) collect and manage outstanding debt receivables more efficiently?"

The PPSSCC estimates that improving debt receivables management and using private collection agencies for uncollected debt would result in 3-year revenue enhancement of $626.1 million; cash acceleration of $44.2 million; and interest savings of $5.0 million.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO agrees that Justice can improve its debt collection practices and has long supported the need for improvements throughout the federal government. GAO has reported many times on federal agencies' inability to collect debts.

In an ongoing review of the collection practices of the Justice Department and the Federal District Courts, GAO has found, for example, that Justice and the Courts are not collecting criminal fines promptly nor are they enforcing the collection of fines from offenders who do not pay. GAO also reported in 1984 that Justice's Immigration and Naturalization Service needed to improve its debt collection practices.

The PPSSCC recommended that Justice enhance its debt collection efforts by establishing a uniform reporting system for forwarding claims to Justice; creating a Special Assistant U.S. Attorney to oversee and facilitate debt collection; and considering the use of private collection agencies. These recommendations are consistent with the types of actions taken in recent years by Congress, OMB, and Justice to improve efforts to collect debts.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC conclusions that its recommendations can be implemented through Justice and OMB actions. In addition, the Debt Collection Act of 1982 (Public Law 97-365) allows the use of private collection agencies, as the PPSSCC suggests, to supplement the agency's own collection program.

Justice has increasingly emphasized its debt collection program since OMB reported in 1981 on the need for strengthened debt management. In a move similar to the PPSSCC call for a Special Assistant U.S. Attorney to facilitate debt collection, Justice established a debt collection team headed by the Assistant Attorney General, Civil Division. According to Justice officials, specific personnel have also been assigned in U.S. attorneys' offices to the collections area. In 1983, Justice developed a standard report for agencies' use in forwarding claims for litigation. Justice officials have, however, generally declined to use private collection agencies because they consider the use of such agencies inappropriate since Justice pursues collection through litigation.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO's analysis indicates that savings will be realized because of Justice's additional efforts to collect outstanding debts. However, GAO cannot determine without doing substantial work whether the entire $631 million estimated by the PPSSCC could be realized. To achieve all or a portion of the estimated savings, Justice would have to change its position on the use of private collection agencies.

V. RELEVANT GAO REPORTS

GAO/GGD-84-86	Opportunities For Immigration And Naturalization Service To Improve Cost Recovery And Debt Collection Practices (July 13, 1984)
GAO/AFMD-83-57	Significant Improvements Seen In Efforts To Collect Debts Owed The Federal Government (Apr. 28, 1983)

VI. GAO CONTACT

Arnold Jones 275-8389

AG 7a: DECENTRALIZING CASH COLLECTIONS

I. PPSSCC ISSUE AND SAVINGS

According to the PPSSCC,

"Farmers Home Administration (FmHA) collections from loan repayments can be accelerated and improved by decentralizing the collection process. * * * interest and other cost savings of * * * $57.6 million over three years * * * and recovered delinquent principal and interest of $44.1 million will result."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATION

Most collections arising from loan repayments are received and processed by FmHA in two ways: (1) direct payments to FmHA's St. Louis, Missouri, Finance Office and (2) payments to the local FmHA county/district offices, which are forwarded to the Finance Office. According to the PPSSCC, for the year ending December 31, 1981, a total of $7.2 billion was collected from loan repayments as follows:

Type of payment	Dollar volume	Percent	Transaction volume	Percent
County office payments	$6,056,056,000	84	3,234,000	27
Direct payments	1,160,269,000	16	8,774,000	73
Total	$7,216,325,000	100	12,008,000	100

The PPSSCC said that under existing procedures, receipts were not separated from the accounting function at an early enough stage. Cash collections had therefore become centralized with the accounting system in St. Louis, with the result that there was an unnecessary and excessive float (the elapsed time from receipt of payments to their deposit) of an average of at least 6.2 days in mail and processing time for county office payments and 2.2 days in the processing of direct payments. According to the PPSSCC, this float could be reduced to 1 day for each type of payment if FmHA would decentralize all loan collections.

In an April 1984 letter to the FmHA Administrator, GAO made similar observations on improving the processing of loan repayments. Also, FmHA states that this recommendation generally supports the findings of an FmHA collection system study, which showed that a banking system with local deposit

and collection would be the most efficient method of handling field office collections.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO believes that this recommendation can be implemented through the FmHA Administrator's existing authority. The results of FmHA's collection system study corresponded with the PPSSCC's recommendation which is being implemented. Training for FmHA staff nationwide was scheduled to be completed by October 1984. FmHA estimates that the system should be in operation, with all states on board, by February 1985.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC attributes $17.4 million of the $57.6 million in estimated savings to the first year in which a banking system with local deposit and collection would operate. According to FmHA, operational experience over a 2-week period in one state indicated that some additional costs, as well as lower interest rates now being used to calculate savings, may lead to savings on the order of $7 million in fiscal year 1985, the expected first fiscal year of operations. GAO's recent audit work did not include an assessment of the reasonableness of either the PPSSCC's estimate or FmHA's estimate.

V. RELEVANT GAO REPORT

Letter report Review of FmHA's Controls Over Cash Management (Apr. 27, 1984)

VI. GAO CONTACT

Brian Crowley 275-5138

AG 7b: DECREASE FLOAT IN CASH COLLECTIONS PROCESSING

I. PPSSCC ISSUE AND SAVINGS

According to the PPSSCC,

"Float [the time it takes to process cash collections] arising out of Farmers Home Administration's (FmHA's) cash collections can be reduced through changes in current operating procedures. If emphasis is redirected toward depositing the large-dollar/low-volume collections (county office payments) before the small-dollar/high-volume collections (direct payments) [and if all county office payments are separated and deposited before processing, using deposit slips/receipts for posting to the borrowers' accounts], an estimated saving of * * * [$27.1 million in 3 years] could be achieved while decentralization is being accomplished * * *."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

FmHA's Finance Office receives cash collections on loans in two ways: directly and through FmHA's county offices. During the period the PPSSCC reviewed, FmHA county office collections accounted for 84 percent of the dollar volume of the monthly collections the Finance Office received. The Finance Office allocated only 27.3 percent of its personnel resources for processing these collections, resulting in an average processing time of 3.2 days. Conversely, the Finance Office devoted 72.7 percent of its personnel resources to processing direct collections for an average processing time of 2.2 days. Direct collections accounted for only 16 percent of the Finance Office's dollar volume of monthly collections during the period.

GAO believes that this issue and the associated recommendations have merit because they are in line with good internal controls and accounting practices for ensuring that all collections are deposited promptly and appropriate records of all cash received are made immediately after receipt. Also, GAO believes that by giving higher priority to processing county office payments than to processing direct payments, as the PPSSCC recommended, FmHA could reduce the average processing time (time from collection to deposit) of the large dollar value county office collections and save actual interest costs resulting from delays in depositing these payments.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

According to FmHA, the recommendations were implemented in the collection unit of FmHA's Finance Office in fiscal year 1983.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC attributed $8 million in savings for fiscal year 1985 to the institution of the improvements in FmHA's cash collection processing. FmHA instituted improved collection processing procedures in fiscal year 1983 and, according to FmHA, it believes the savings have been captured in the past and cannot be treated as new savings in fiscal year 1985. FmHA did not state how much actual savings it realized in fiscal year 1983. GAO's recent audit work regarding the processing of loan repayments did not include assessments of either the PPSSCC's savings estimate or FmHA's comments.

V. RELEVANT GAO REPORT

Letter report Review of FmHA's Controls Over Cash Management (Apr. 27, 1984)

VI. GAO CONTACT

Brian Crowley 275-5138

AG 41: IMPROVE TIMBER SALES CASH MANAGEMENT

I. PPSSCC ISSUE AND SAVINGS

According to the PPSSCC,

"A flat payment schedule should be implemented in contracting for timber sales. While the total Government receipts from each timber-sales contract will not change, accelerating the receipt of these amounts by our proposal will save $459.9 million over three years."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATION

Annually, the U.S. Department of Agriculture's (USDA's) Forest Service sells about 11 billion board feet of timber which generates receipts of about $600 million and results in the building of roads valued at about $200 million. Under most timber sale contracts outstanding at the time of the PPSSCC's review, purchasers were required to pay for timber only as it was being removed from the forest. As a result, the government did not receive payment for most of the timber sold until 3 or 4 years after the expenses of sales preparation had been incurred.

GAO has not reviewed the issue of accelerating timber sale receipts. However, GAO generally concurs in the concept of improving the flow of timber receipts to the Treasury in order to put the timber sale program on a more businesslike basis. Nevertheless, GAO believes that the recommendation may not be appropriate at this time because

--a flat payment schedule, especially during a period in which business is depressed, may result in lower bid rates and reduce purchaser flexibility to adjust to cyclical fluctuations and

--changes should not be made until the results of the Forest Service's revised payment provisions, which became effective in April 1982, are evaluated. These payment provisions, which are being evaluated, generally require timber purchasers to pay more money up front and encourage earlier timber harvests.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

USDA has the administrative authority to implement the PPSSCC's recommendation. Pursuant to its revised payment provisions, the Forest Service has taken several actions over the past 2 years to improve cash flow management of timber sales:

1. All sales included under the 5-year timber sale extension program authorized in August 1983 will be placed on a payment schedule.

2. Sales currently sold require a mid-contract period payment even though operations may not have started.

3. Early payment discounts are being offered on a trial basis for some timber sales on the west side of the Pacific Northwest Region.

4. An up-front deposit of 10 percent of the bid value of a timber sale is required.

According to the Forest Service, it will consider further steps, such as a flat payment schedule, after evaluating the results of the actions already initiated.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The estimated savings of $459.9 million over 3 years appear to be overstated. The PPSSCC's computed savings are based on assumed sales volumes (net of road construction allowances) of $1.5 billion in 1983, $1.575 billion in 1984, and $1.65 billion in 1985. According to the Forest Service, actual gross 1983 timber sales amounted to $774 million and could approach $1 billion by 1985. These gross amounts are significantly lower (even without considering road construction allowances) than those used by the PPSSCC and would result in much lower savings. Savings could also be reduced if, in the future, bidders bid less to adjust for the impact that faster payment has on the bidders' estimated profits.

In its October 3, 1984, implementation status report, USDA stated that the timber sale procedures already adopted would accomplish some of the objectives of the recommendation, and it estimated savings of $30 million for fiscal years 1985-87.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

Brian Crowley 275-5138

ASSET 4: TIMELY PAYMENT

I. PPSSCC ISSUE AND SAVINGS

"Should Treasury take responsibility for designing the systems and controls necessary for the government to effect timely payment of its bills, including urging Congress to amend laws that inhibit disbursement controls?" Three-year cumulative savings and reduced interest costs/outlays savings of $6.347 billion have been identified.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO has completed a number of reviews of cash management issues such as timely payment of bills and use of letters of credit by state or local government and private grantees to finance federally funded programs. The first of the three PPSSCC recommendations in this area calls for the Treasury to require a suspense date for each government payment voucher, a position GAO also has supported. Since 1978, GAO has recommended that payment due-date standards be developed and agencies be required, when possible, to specify in each contract and purchase order the date when payment is due. The Congress reacted to such concerns by passing the Prompt Payment Act of 1982. The implementing regulations require payments to be made when due, not earlier or later.

To eliminate the holding of excess federal cash by grant recipients, the second PPSSCC recommendation called for Treasury to take responsibility for designing a governmentwide system which would delay drawdowns under letter-of-credit programs until grant recipients had an imminent need for the federal monies. Although GAO has not done any governmentwide reviews of letter-of-credit operations, its work at individual departments and agencies as a part of broader financial management reviews shows that problems exist in this area. PPSSCC also recommended that section 203 of the Intergovernmental Cooperation Act be amended to permit charging interest and penalties to states for excessive and early drawdown of funds under letters of credit. GAO agrees with the basic thrust of these proposals to slow down letter-of-credit disbursements and reduce excess cash held by grantees.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY AND STATUS

GAO agrees with the PPSSCC that two of the recommendations related to timely payments can be implemented by executive action. These are (1) the proposal that Trea-

sury require a suspense date to be issued with each voucher authorized for payment and (2) a Treasury initiative for designing a governmentwide system which would allow delaying drawdowns of federal cash under the letter-of-credit programs. GAO also agrees with the PPSSCC that the third recommendation, to charge interest for excessive and early drawdown of funds under letters of credit, would require congressional action in order to be implemented.

The PPSSCC proposal for a suspense date to be issued with each voucher is similar to GAO's previous recommendations in this area. Accordingly, GAO believes that implementation of this PPSSCC recommendation is feasible. Treasury has acted on this issue, and since April 1983 all agencies have been required by regulation to attach due dates to their vendor payment vouchers submitted to Treasury.

The Treasury also is currently implementing a governmentwide system to ensure that grant recipients do not prematurely withdraw federal monies under the letter-of-credit programs. The system should be substantially in place about the end of 1985. GAO has not carried out a detailed review of the need to modify section 203 of the Intergovernmental Cooperation Act to permit Treasury to charge interest and penalties to states for excessive and early drawdown of funds under letters of credit. Although such a modification is possible and could discourage premature drawdowns of federal funds, the associated efforts to assess and collect interest and penalties could be quite burdensome.

Another factor, as stated in the February 1984 joint Congressional Budget Office and General Accounting Office study on the analysis of the PPSSCC's major proposals for cost control, is that some state constitutions require that federal money be in a state account before the state can issue checks for federally supported programs. Thus, depending on the specific provisions of such a measure, delaying drawdowns could create some problems for these states if they cannot satisfy their timing requirements for transferring federal funds to state accounts for check cashing purposes.

GAO is not aware of any congressional initiative to amend the Intergovernmental Cooperation Act to charge interest or penalties.

IV. GAO ANALYSIS OF PPSSCC SAVINGS ESTIMATE

Regarding the projected savings of $1.308 billion from assigning a suspense date to each voucher, an equiva-

lent savings in interest expense could result from effective agency actions in response to the Prompt Payment Act signed into law in May 1982. As noted previously, that act resulted in regulations stipulating that payments be made when due, not earlier. Also, the Treasury already requires agencies to schedule payments as close as administratively possible to, but not later than, the due date. GAO believes that agencies' adherence to these existing requirements should generate significant savings.

GAO has not performed governmentwide reviews relating to delaying drawdowns of federal monies under the letter-of-credit system programs or to charging interest or penalties on inappropriate drawdowns. GAO believes that substantial savings could be achieved through either of these initiatives but is not in a position to comment specifically on the projected savings of \$.201 billion and \$1.03 billion, respectively.

V. RELEVANT GAO REPORTS

GAO/OGC-82-1	Major Financial Management Improvements Needed at the Department of Energy (Sept. 15, 1982)
GAO/AFMD-82-1	Actions To Improve Timeliness Of Bill Paying By The Federal Government Could Save Hundreds Of Millions Of Dollars (Oct. 8, 1981)
GAO/FGMSD-80-65	Continuing and Widespread Weaknesses In Internal Controls Result in Losses Through Fraud, Waste, and Abuse (Aug. 28, 1980)
GAO/FGSMD-80-6	HEW Must Improve Control Over Billions in Cash Advances (Dec. 28, 1979)
GAO/FGMSD-80-5	Better Cash Management Can Reduce the Loss of the National Direct Student Loan Program (Nov. 27, 1979)
GAO/FGMSD-78-16	The Federal Government's Bill Payment Performance Is Good But Should Be Better (Feb. 24, 1978)

VI. GAO CONTACT

John Simonette 275-9489

ASSET 6: ELECTRONIC FUNDS TRANSFER (EFT) DISBURSEMENT INCENTIVES

I. PPSSCC ISSUE AND SAVINGS

"Should Treasury establish direct deposit/electronic funds transfer (DD/EFT) incentives for benefit check disbursements as well as payroll disbursements?

Three-year cumulative slowed cash disbursements of $1,918.0 million and reduced interest costs/outlays of $634.9 million have been identified for a total budget impact of $2,552.9 million."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

Although there may be some practical obstacles to implementing the recommendations under this issue, their primary objective is to increase the use of more efficient payment mechanisms. As such, GAO believes the issue has merit. One recommendation calls for mailing payroll checks to government employees' homes on the date due, rather than any earlier date, to encourage employees' use of EFT. For those employees not electing the use of EFT, their checks would be mailed on the designated payday. GAO has previously reported on the merits of using EFT (GAO/AFMD-81-68 and GAO/FGMSD-80-80). Under the EFT program, Treasury issues payments on magnetic tapes and sends the tapes to financial institutions which make the funds available to the recipients on the payment date. This program, which is entirely voluntary, provides some benefits as follows.

--Beneficiaries get improved service through the elimination of check loss, theft, and forgery; the elimination of check cashing problems; and the convenience of regular deposits.

--The financial community gets reduced operating costs as well as increased deposits and a more efficient new-depositors system.

--The government gets reduced costs in the issuance, mailing, and clearance of checks.

The program, however, is completely voluntary, and it is not known how significantly participation would increase under the PPSSCC recommendation.

The other recommendation calls for Treasury to sponsor legislation requiring benefit checks (Social Security, etc.) to be mailed on the due date rather than mailed to arrive on the due date, and that EFT payments be sent on the due date. Although this proposal also offers benefits, there is likely to be considerable opposition, as discussed in the following section.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

Making EFT mandatory or creating disincentives for receiving checks will not, in GAO's view, be a simple undertaking. There has been broad support in the past for preserving individuals' freedom to choose among available payment methods. In addition, some individuals do not deal with financial institutions for various reasons. GAO also believes that there would be public opposition to changes that would delay the dates Social Security recipients receive their checks.

According to a Treasury official, legislation is under consideration within the department to give Treasury the authority to require employees to receive payroll payments through EFT, with various exceptions. However, the department is opposed to the recommendation concerning benefit checks because of perceived congressional opposition. Treasury would prefer to keep the program voluntary at this point.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO does not have sufficient information to comment on the reasonableness of the savings estimate.

V. RELEVANT GAO REPORTS

GAO/AFMD-81-68	Millions Paid Out In Duplicate And Forged Government Checks (Oct. 1, 1981)
GAO/FGMSD-80-80	Electronic Funds Transfer--Its Potential For Improving Cash Management In Government (Sept. 19, 1980)

VI. GAO CONTACT

John F. Simonette 275-9490

ASSET 9: CASH MANAGEMENT INCENTIVES ADMINISTRATION

I. PPSSCC ISSUE AND SAVINGS

"Should agencies/departments be provided with administrative incentives and controls to perform cash management and cash flow forecasting?"

No specific cost savings were attributable to this issue.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO supports the need for the government to seek continually ways to effectively manage its cash as a means of managing the cost of government. PPSSCC recommended that OMB establish cash management goals and request action plans from each department and agency to meet those goals in the budgeting process, but it did not suggest specific incentives to encourage agencies to achieve the goals. The recommendation said that OMB goals should be to establish accounting systems and data reporting techniques for cash management of disbursements and collections and to apply those systems and techniques to identify cash management improvement areas and progress toward implementaiton. PPSSCC believes that including such specific information in the budgeting process will instill a greater level of commitment to improve cash management.

Establishing cash management or other goals is consistent with recommendations included in GAO's report "Managing the Cost of Government: Building an Effective Financial Management Structure." In that report, GAO stated that financial management systems should include effective performance measurement information. The cash management goal setting process recommended by PPSSCC would provide an opportunity for participants to agree on objectives and relevant measures of accomplishment. Information obtained by comparing cash management results with the established objectives would permit determinations of the degree of accomplishment. The results of those determinations could then be considered in each organization's next budget review.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with PPSSCC that OMB, with Treasury, could appropriately establish cash management goals from both a budgetary consideration of minimizing the budgetary impact of programs and administrative functions and also from a management perspective of gaining the best use of government resources.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

No specific cost savings were attributable to this issue.

V. RELEVANT GAO REPORTS

GAO/AFMD-85-35 Managing The Cost Of Government: Building An Effective Financial Management Structure (February 1985)

VI. GAO CONTACT

John R. Cherbini 275-9487

ASSET 33: BOND INTEREST PAYMENTS BY ELECTRONIC FUNDS TRANSFER

I. PPSSCC ISSUE AND SAVINGS

"Should the Department of the Treasury use electronic funds transfer (EFT) to pay interest on registered bonds and notes, discounts at the time bills are purchased, and the maturity amount on bills, rather than writing individual checks?

First-year savings of $1.6 million and 3-year cumulative reduced costs/outlays of $5.3 million have been identified."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO agrees that EFT offers the potential for reduced payment processing costs and improved efficiency. Accordingly, GAO believes the PPSSCC recommendation that Treasury should transmit the security, interest, and discount transactions by EFT has merit. Generally, making payments by EFT costs less than by check, and a properly operated EFT system can consistently time payments so they are made neither too early nor too late.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with PPSSCC that Treasury could implement the recommendation within its existing authority. According to a Treasury official, a new system being developed for handling Treasury securities will include the capability to make EFT payments by 1986. Receiving payments via EFT rather than check may be left to the option of the recipient, instead of EFT being mandatory as PPSSCC suggests. Although the number may be small, some Treasury securities investors may not have bank accounts to which the EFT payments can be sent.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO believes that the savings estimate is probably overstated. As PPSSCC notes, the estimated savings from reduced payment processing costs would be offset by cash costs if float time is lost by EFT payments arriving sooner than checks clear. With checks, the government's cash is not drawn until the checks are presented for payment, which may be several days after the check is issued. However, with EFT payments, the government's cash is drawn down as soon as the payment is issued. This would probably occur in at least some cases, but neither PPSSCC nor Treasury has studied the issue to determine what that amount would be. Therefore, the estimated savings could be reduced by some unknown amount. PPSSCC itself suggested that additional

study be performed prior to implementation to ensure that this added cost element is not potentially large enough to override the savings.

V. RELEVANT GAO REPORTS

GAO/FGMSD-80-80	Electronic Funds Transfer--Its Potential For Improving Cash Management In Government (Sept. 19, 1980)

VI. GAO CONTACT

John F. Simonette 275-9490

HHSMGMT 8: CASH MANAGEMENT

I. PPSSCC ISSUE AND SAVINGS

"Are there significant financial advantages to the government in the management of Medicaid funds by bringing the remaining 20 states under the delay-of-drawdown program and/or by adopting the checks-paid letter of credit approach for all states?

Total savings in reduced interest costs would be $48 million annually or $144 million over a 3-year period."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

This issue is aimed at improving cash management practices in providing federal funds to the states. As such, GAO believes that the issue has merit. The PPSSCC recommends that the Department of Health and Human Services (HHS) initially bring all states receiving funds through the Medicaid program under the delay-of-drawdown letter-of-credit method of financing, and that ultimately, only the checks-paid letter-of-credit technique be used for providing such payments to the states.

In situations where letters of credit are used as a means of transferring funds to grantees, GAO has generally advocated "checks-paid" letters of credit. Under that method, federal funds are not drawn down until checks written by the funding recipient are presented to the bank for payment. A somewhat similar method is the delay-of-drawdown technique, under which federal funds are drawn down as often as daily to cover the grantee's checks that are expected to be presented for payment the next business day. Although GAO has preferred the checks-paid method because it delays drawdowns of government funds to the maximum extent, both methods delay drawdowns of federal funds and, thereby, help to reduce the government's interest costs.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with PPSSCC that HHS has authority to implement the recommendations. Although the checks-paid letter of credit method offers clear advantages to the federal government because it delays drawdowns of federal funds, there has been opposition from some states whose constitutions require funds to be available before disbursements are authorized. To overcome this problem, four states have been testing various alternative methods of conducting state/federal cash transfers.

An HHS official stated that the department has not implemented the PPSSCC recommendations because of opposition

from some segments of the Congress. As such, the department has chosen to participate in the above-mentioned test.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

Sufficient information was not available to allow GAO to evaluate the reasonableness of the PPSSCC savings estimate.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

John F. Simonette 275-9490

BANK 14: CASH MANAGEMENT

I. PPSSCC ISSUE AND SAVINGS

"Could the Railroad Retirement Board (RRB) institute changes to improve its cash position?"

Under this issue, the PPSSCC recommended that the Treasury Department collect railroad retirement taxes with the same frequency as it does social security taxes. PPSSCC also recommended that the Treasury Department should accelerate the deposit of tax monies into the railroad retirement account.

The PPSSCC estimates that the railroad retirement account will realize over $344 million over a 3-year period because of these recommendations.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO agrees with the recommendations. They would increase revenues to the railroad retirement account while (1) making deposit requirements for rail employers' railroad retirement taxes similar to those required of non-rail employers for social security taxes and (2) causing such deposits to be credited to the railroad retirement account as soon as received. GAO made the same recommendations in a September 1981 report.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The recommendations have been implemented. Under the Railroad Retirement Solvency Act of 1983, railroad employer payroll tax deposits will be accelerated to conform to social security's tax deposit schedules. Effective January 1, 1984, the Treasury Department adopted methods requested by the Railroad Retirement Board to credit deposits of railroad retirement taxes into the railroad retirement account on the same day as the deposits are made.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC estimates are considerably higher than either those of the Railroad Retirement Board or the Congressional Budget Office. The PPSSCC estimates that over a 3-year period, the railroad retirement account will realize over $344 million if these recommendations were enacted. The Railroad Retirement Board and the Congressional Budget Office estimated that the railroad retirement account would realize additional funds of $263 million and $189 million respectively. GAO has not developed updated figures since its 1981 report.

V. RELEVANT GAO REPORTS

GAO/HRD 81-112 Delays in Receiving and Investing Taxes Are Reducing Railroad Retirement Program Interest Income (Sept. 24, 1981)

VI. GAO CONTACT

Joseph Delfico 275-6193

ED 5: CASH MANAGEMENT

I. PPSSCC ISSUE AND SAVINGS

Could the Department of Education realize significant savings through improvement of cash management practices?

Over 3 years an estimated $62.2 million in interest can be saved through cash flow improvements totaling $291 million, which result from cash deceleration techniques.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

PPSSCC made specific recommendations to improve cash management within the department. These include:

--development and implementation of a new payment system,

--increased use of letters-of-credit, and

--compliance with the provisions of the Prompt Payment Act of 1982.

The recommendations set forth by PPSSCC are viable and should be implemented. Successful implementation should improve cash management and the financial management structure of the department.

Financial management within the Department of Education has been and still remains a problem. During our review of the department's first-year implementation of the Federal Managers' Financial Integrity Act we concluded that improvements are needed in the accounting systems to effectively and efficiently control and account for funds.

For example, the department reported that the internal control in the Accounts Receivable System the Department of Education Payment System (EDPMTS) do not provide reasonable assurance that the systems will classify, summarize and report receivables and payments in a timely and accurate manner.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The recommendations set forth by PPSSCC are feasible and can be implemented through administrative action by the department. However, additional funding may need to be authorized for the development and implementation of a new payment system. Improving overall cash management in

the department will require an accurate and reliable payment system--something the department does not currently have.

The department's payment system (EDPMTS) was scheduled to be operational in fiscal year 1984, but because of design problems full implementation has been delayed indefinitely. During the first-year's Federal Managers' Financial Integrity Act review of the department, an official in the Financial Management Service stated that the Department of Health and Human Services' new Payment Management System may be utilized instead. At the present time, the department has not made a final decision as to whether to proceed with the implementation of EDPMTS or to use another agency's payment system. In addition, based on a current GAO review of the department's second-year efforts to implement the Federal Managers' Financial Integrity Act, many of the previously reported internal control weaknesses still exist.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC projected saving does not address the issue of the cost required to design and implement a payment system. These costs can be very significant. Therefore, GAO believes the actual savings may be less than that estimated by PPSSCC.

V. RELEVANT GAO REPORTS

GAO/AFMD 83-57	Significant Improvements Seen In Efforts To Collect Debts Owed The Government (Apr. 28, 1983)
GAO/HRD 81-124	Stronger Actions Needed To Recover $730 Million In Defaulted National Direct Student Loans (Sept. 30, 1981)
GAO/HRD 81-139	The Guaranteed Student Loan Information System Needs a Thorough Redesign To Account For The Expenditure of Billions (Sept. 30, 1981

VI. GAO CONTACT

John Simonette 275-9489

I. PPSSCC ISSUE AND SAVINGS

"Can Interior further accelerate collection of key receipts and reduce excess cash balances held by letter-of-credit recipients and, thereby, reduce Treasury borrowing needs and resulting interest expense?

The estimated 3-year interest cost savings potential is $23.3 million to $58.8 million based on minimum cash accelerations of $219.9 million."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The general thrust of this issue is to enhance Interior's cash management, primarily through electronic and other advanced collection means. GAO agrees that the issue has merit. Two such mechanisms that are advocated are the Treasury Financial Communications System (TFCS) and lockboxes for collecting such things as deposits on oil and gas leases, oil and gas royalty payments, and other miscellaneous fees. TFCS is Treasury's computer-to-computer link with the New York Federal Reserve Board and commercial banks, and allows depositors to electronically transfer payments to the government. With lockboxes, on the other hand, government debtors submit their payments to a specified postal box serviced by a bank which is required to process the payments to Treasury's account. Because both TFCS and lockboxes allow the payments to bypass the agencies and corresponding processing time, there is a potential for accelerating the collections to Treasury. In testing and implementing these mechanisms, however, it is essential that precautions be taken to ensure that (1) the overall cost to the government of using these mechanisms does not exceed expected savings from accelerated collections, (2) accurate accounting data is transmitted and promptly recorded, and (3) delays in transferring the funds to Treasury can be prevented or detected.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

According to information reported by Interior, some action has been taken on all of the PPSSCC recommendations under this issue. For example, Interior states that TFCS is being used for collecting most bonus deposits for outer continental shelf oil leases, major oil royalty payments, and major abandoned mine land reclamation fees. In addition, BIA and the Office of Surface Mining have implemented TFCS for letters of credit. However, lockbox implementation has been delayed until Treasury and Interior further review the matter.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

PPSSCC does not provide adequate information on how the savings it projected were computed and, as such, it is not possible for GAO to verify the accuracy of the amount. However, the savings could be overstated depending on the assumptions used in the calculations. For example, part of the savings claimed in the report is attributed to reducing or eliminating the time for clearing checks Interior receives by switching to the TFCS and receiving same-day or possibly next-day funds availability. The report asserts that cutting back on check-clearing time will accelerate funds to Treasury and, thereby, reduce interest or borrowing costs. However, the report does not recognize that the current system is designed to provide day-after-deposit availability of funds rather than the 3 days mentioned in the report. If the savings were to be computed using only 1 day for check clearing, the savings would be less than the estimate using 3 days. Although it appears that 3 days was used in the PPSSCC computation, GAO cannot verify the figure because of inadequate information.

V. RELEVANT GAO REPORTS

GAO/AFMD-82-6	Oil And Gas Royalty Collections -- Longstanding Problems Costing Millions (Oct. 29, 1981)

VI. GAO CONTACT

John F. Simonette 275-9490

TRANS 2: DEPARTMENT OF TRANSPORTATION (DOT) CASH MANAGEMENT

I. PPSSCC ISSUE AND SAVINGS

"Can the Department of Transportation (DOT) cash management be improved through more efficient procedures for making cash advances and cash disbursements to grant recipients?"

PPSSCC estimates that the recommendations will result in 3-year total savings of $144.4 million.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The cash management proposals made by PPSSCC on this issue are consistent with previous GAO recommendations. In GAO's view, PPSSCC was accurate in its finding that providing grantees with funds through letters of credit (LOCs) -- although preferable to advances by Treasury check -- allows grantees to draw funds prior to or in excess of actual need, since grantees assess their own drawdown needs. Specifically, the grantee determines when, and how much each drawdown request will be. Very little information is available to DOT to determine if excess cash will result from an individual drawdown request.

PPSSCC concluded, and GAO concurs, that DOT foregoes potential interest earnings because:

--DOT's grant drawdown procedures do not minimize the time elapsing between the transfer of funds to the grantee and their disbursement by the grantee. The funds are idle while they are held by the grantee.

--DOT's grant management procedures allow grantees to hold federal funds prior to disbursing them to contractors.

--DOT's cash management procedures for grantees do not require grantees to use common bill-paying practices Therefore, many grantees were paying their bills early.

--DOT does not aggressively recover excess or idle cash held by grantees.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The proposals appear practical, and as claimed by PPSSCC, could be implemented by DOT. The Assistant Secretary for Administration stated by memorandum that DOT has discussed the estimated savings with the Office of Management and Budget and that, in general, DOT is in agreement.

An official in the assistant secretary's office responsible for coordinating DOT's response to the PPSSCC findings stated that DOT is allowing Treasury to take the lead in cash management. Accordingly, two independent Treasury initiatives currently address the PPSSCC recommendations. First, DOT is modernizing its payment procedures by converting to the Treasury Financial Communications System (TFCS). The TFCS utilizes electronic wire capabilities to transfer funds. Although DOT has made substantial progress in converting to TFCS, full conversion is not expected until December of 1985. Second, DOT is involved with Treasury's pilot project for developing a "State/Federal Equity Program." According to a DOT official, the pilot project was initiated to achieve an equitable system of intergovernmental cash management. Specifically, the project is intended to determine the amount of outstanding cash balances in the states and the associated interest costs to the federal government.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO does not have sufficient information available to determine the accuracy of the estimated savings computation.

V. RELEVANT GAO REPORTS

GAO/OCG-82-1	Major Financial Management Improvements Needed At Department Of Energy (Sept. 15, 1982)
GAO/AFMD-82-1	Actions To Improve Timeliness Of Bill Paying By The Federal Government Could Save Hundreds Of Millions Of Dollars (Oct. 8, 1981)
GAO/FGMSD-78-16	The Federal Government's Bill Payment Performance Is Good But Should Be Better (Feb. 24, 1978)
GAO/FGMSD-75-17	Opportunities For Savings In Interest Cost Through Improved Letter-Of-Credit Methods In Federal Grant Programs (April 29, 1975)

VI. GAO CONTACT

John F. Simonette 275-9490

AG 6: INVEST PROCEEDS OF SUPERVISED BANK ACCOUNTS (SBACs)

I. PPSSCC ISSUE AND SAVINGS

"Loan funds in Supervised Bank Accounts (SBACs) should be invested while they await disbursement. If interest-bearing accounts were used, estimated revenue to the Farmers Home Administration (FmHA) would be approximately $35.7 million per year and $118.2 million over 3 years."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO agrees that opportunities exist for improving cash management within FmHA, but with methods other than that recommended by PPSSCC. PPSSCC recommended that FmHA direct all county supervisors and district directors to use interest-bearing SBACs, or otherwise invest loan proceeds awaiting disbursement, to the maximum extent possible. The basis for the PPSSCC proposal was that after FmHA and a rural borrower executed a loan agreement, portions of the full loan amount were periodically deposited in noninterest-bearing accounts at local banks. However, some of these funds were not immediately needed by the borrower and remained idle. To overcome this problem of idle funds and lost interest, in an April 27, 1984, letter to the FmHA administrator, GAO suggested that FmHA use alternate disbursing systems, such as checks/drafts-paid letters of credit to disburse funds. Using this technique, recipients of federal financing do not receive funds until needed for disbursement. This helps to eliminate effectively the problems of idle cash and interest losses that result when temporarily unneeded portions of loans are placed in noninterest-bearing SBACs. PPSSCC acknowledged that letters of credit could provide an alternative solution to the problem.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

FmHA regulations already provide for the use of interest bearing accounts. According to a FmHA official, such accounts are now being used whenever possible. However, the interest proceeds are credited to the loan recipient. The official stated that because the recipient must pay interest on any funds placed in the bank account as part of the loan agreement, the recipient is entitled to any interest earnings generated from those funds. Therefore, FmHA's position that it does not have authority to retain the interest earnings on the government's behalf appears reasonable.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

Although there is an opportunity for savings in this area, GAO believes savings would be attained through

alternative means, as we have suggested, rather than through implementation of this recommendation. As mentioned earlier, when the loan recipient pays the government interest on the funds in the supervised bank account, the loan recipient and not the government is entitled to any interest that may be earned on the funds. Furthermore, although GAO does not have adequate information to comment on the accuracy of the PPSSCC estimate, it does question whether the amount should be included in the overall PPSSCC savings figures because it may duplicate savings claimed under another issue. ASSET 7-2 states: "FmHA should instruct its field loan offices to invest supervised bank account funds and collect the interest." The claimed savings under that recommendation, which apparently is the same as the one under this issue, are $193 million. Duplicate savings were not to have been included in total PPSSCC savings, but GAO is uncertain if the savings related to this issue have been eliminated.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

John F. Simonette 275-9490

ASSET 13: PRIVATE SECTOR INCREASED PARTICIPATION

I. PPSSCC ISSUE AND SAVINGS

"Can certain direct Federal loans be made by private lenders?[1] Certain direct loan programs could be decreased gradually by inviting a larger participation in these loans from private sector lenders."

PPSSCC stated that loans of $4.6 billion could be made by private lenders resulting in 3-year cost savings of $185.4 million. It also stated that additional cash accelerations could result.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

PPSSCC recommended that all existing direct loan programs be analyzed closely to determine which loans could be absorbed by private lenders without government guarantees. PPSSCC had reviewed 19[1] direct loan programs that had a total of $31.7 billion in direct loan obligations in fiscal year 1983. It concluded that $4.6 billion out of $12.3 billion in loans in 9 programs could be made by private lenders.

Because the government's policy in general is to avoid engaging in direct competition with the private sector, GAO agrees that PPSSCC's recommended analyses to determine the extent to which direct federal loans could be absorbed by private sector lenders should be conducted.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

To implement its recommendation, PPSSCC stated that (1) congressional action will be required to convert some direct loan programs into guaranteed or private ones, (2) each agency needs to review specific loan programs and determine the private marketability of (loan) portfolio assets or the conversion from direct to guaranteed programs, and (3) each agency observe guidelines for loan approval or rejection--agencies should draft regulations to require borrowers to show they are unable to obtain credit from private sources ("credit elsewhere" test).

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[1]Excludes Rural Electrification Administration and Export-Import Bank direct loans which are discussed in Asset 14.

PPSSCC's implementation strategy suggests that agencies should consider selling their loan assets as one way of obtaining greater private sector participation. When and if such sales are actually contemplated, GAO believes agencies offering loans for sale will have to exercise care to ensure that the proceeds from loan sales are reasonable relative to the expected return the government could realize if the agency held onto these loan assets. Any loan can go bad, thereby diminishing the expected rate of return. Further, if the loan is inadequately secured, losses can be incurred. Consequently, the more information one has about a loan, including the borrower, then the better able one is to assess the risk of default, its effect on the rate of return, and the potential for losses. If potential purchasers should be denied any essential information that is available to the government, for example, because of the Privacy Act, then potential purchasers, as a hedge against lossses, will tend to overestimate risk in comparison to the government's perception of the risk. As a result, they will tend to purchase the loan at a substantial discount by bidding prices that may be lower than what the government could collect if it held onto the loan.

GAO believes inclusion of a "credit elsewhere" test in direct loan programs is an appropriate step toward encouraging more private sector participation. With a "credit elsewhere" test, applicants for direct federal loans would have to show they were unable to obtain a private sector loan. Because the private sector is given the opportunity first to make the loan, the test serves to avoid undue government competition with the private sector.

Although PPSSCC contends that congressional action is only needed for the conversion of some direct loan programs, it did not specifically identify these programs. GAO has not attempted to ascertain what programs would require congressional action. GAO believes that regardless of the need for congressional action, the Congress should have an opportunity to concur with any and all planned conversions, if for any reason, to confirm congressional intent.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

PPSSCC's savings estimates were based on assumptions on the magnitude of shifts to the private sector. Since, the validity of these assumptions will not be known until PPSSCC's recommended program analyses are completed, GAO could not assess the reasonableness of the savings estimates.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

John Luke 275-6111

ASSET 15: DIRECT LOAN PRICING-INTEREST RATES

I. PPSSCC ISSUE AND ESTIMATED SAVINGS

"Should efforts be made to raise federal lending rates to approach market rates?"

"Raising rates to approach market rates in selected loan programs would produce three-year cumulative increased revenues/receipts of $2.371 billion."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC made four recommendations about the pricing of direct loans to the public for programs such as housing, student aid, and small business loans. These credit programs in effect provide subsidies that cover the difference between the program interest rate and the free-market rate. The PPSSCC's first recommendation is to raise interest rates for these programs to free-market rates or to intended subsidy levels. The remaining three recommendations are designed to implement the first one. They are: to estimate free-market rates of interest applicable to each program; to determine the intended level of subsidy (defined by the PPSSCC as a pegged interest rate differential that is adjusted as market interest rates change) for each loan program; and to revise legislation or agency regulations so that direct loans are priced at rates reflecting market rates of interest or the originally intended subsidy gap between market rates and program rates.

The fundamental premise of the recommendations is that loan rates for government credit programs generally were set when all interest rates were lower. Thus, although interest rates throughout the economy have risen, the rates on government loan programs have stayed the same. As a result, subsidy levels have grown in the current higher interest rate environment. This premise appears to be valid. The figures contained in the PPSSCC report provide convincing evidence that net government outlays have increased by at least several billion dollars as a result of the higher rates, but neither GAO nor the PPSSCC has figures on the full impact of the government's loan pricing policy.

GAO supports review of the credit programs and of the subsidies involved, full disclosure of loan program costs, and proper budgeting for those costs. However, GAO holds

the position that costs for government loan programs should be calculated for budget purposes in terms of the government's cost of money, not in terms of higher private sector borrowing costs.

According to the PPSSCC's analysis of government credit programs, the higher amount of federally sponsored credit is "crowding out" private credit in capital markets. This crowding out, in the PPSSCC's view, diminishes capital available for uses more productive in the long run--such as building factories--than for basic consumer needs, such as housing. GAO agrees with the concern that adequate capital be available in the economy. However, the PPSSCC has not demonstrated how federal credit programs crowd out private sector investment more than spending for any other governmental activity. Allocating resources--whether it be to corporate stock, charities, housing, or troubled industries--inherently crowds out resources that, by definition, could be directed elsewhere. How these resources are allocated, then, is a matter of policy--individual, public, and corporate. To determine the effect of governmental lending upon the private sector would require thorough analysis of the relationship between government credit programs and investment in other areas of the economy.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that implementation authority for most of the recommendations lies with Congress, while identification of current free-market rates and needed regulatory changes can be accomplished through executive action.

No legislative action has been taken to implement the PPSSCC recommendations. Executive action has centered on OMB's revision of Circular A-70 ("Federal Credit Policy;" Aug. 24, 1984). This circular incorporates the need to take better account of market factors when pricing loans and calculating subsidies. Particularly in light of the OMB circular, the intent of these PPSSCC recommendations should be contained in budget or legislative proposals for individual programs.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO has not previously estimated the amount of savings that the government could achieve by raising interest rates to market levels or by explicitly adjusting subsidy levels.

Since no one has done a program-by-program analysis, more careful scrutiny of individual programs would be necessary to arrive at reasonable anticipated savings levels. The PPSSCC itself recognizes there is no generally accepted method for quantifying the present value of interest subsidies. However, the PPSSCC estimates of savings resulting from increased rates do not take into account the decline in loan demand that would probably result from repricing, as well as the reduction in tax revenues that would result from program beneficiaries writing off estimated higher levels of interest expenses.

V. RELEVANT GAO REPORTS

GAO/PAD 83-12	Catalog of Federal Credit Programs and Their Interest Provisions (Dec. 28, 1982)
GAO/PAD 82-22	The Congress Should Control Federal Credit Programs to Promote Economic Stabilization (Oct. 21, 1981)
GAO/PAD 79-5	Exposure Draft: A Methodology for Estimating Costs and Subsidies from Federal Credit Programs (Jul. 17, 1979)
GAO/PAD 78-31	Federal Credit Assistance: An Approach to Program Design and Analysis (May 31, 1978)

VI. GAO CONTACT

Craig Simmons 275-8678

ASSET 16: ACCEPTABLE DEFAULT LEVELS

I. PPSSCC ISSUE AND SAVINGS

"Should acceptable maximum default levels be stated explicitly for direct loan programs?"

"This issue is a subset of Asset 12: Credit Processing. The benefits from this proposal, however, can be realized immediately, while Asset 12 is a longterm project. Setting acceptable default levels, without regard to Asset 12, would produce three-year cumulative decreases in default levels of $626 million and interest savings of $137 million, totaling $763 million."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

PPSSCC concluded that default standards are missing in federal government direct loan programs. Default standards, long a part of private sector lending practices, provide management with information on the status of outstanding accounts. The standards can be used to assist management in the monitoring of an account and provide indications as to when a borrower may not be making timely payments. In addition, default standards provide indicators as to when a loan should be written-off as uncollectable, which helps to more fairly present the financial position of the agency. Further, the PPSSCC stated that the development of such standards would provide managers with more accurate and timely data for prompt action against loans that appear to be approaching a default status often resulting in higher collections and lower defaults. To correct this situation PPSSCC recommended that:

- --Governmentwide definitions of default should be developed.
- --Each direct lending program should have explicitly stated maximum acceptable default levels.
- --Mechanisms should be put in place to ensure that each agency's management information system include timely and accurate statistics for defaults.
- --Each department/agency should be required to submit detailed reports to OMB whenever default levels exceed an agreed-upon maximum.
- --Individual program officer's performance appraisal should refer to default levels for programs under their supervision.

These recommendations have merit, and their implementation would provide a business-type environment to the government's credit processing.

GAO's report "Significant Improvements Seen In Efforts To Collect Debts Owed The Federal Government," (April 28, 1983), indicates that one of the problems identified under OMB's "Reform 88" initiatives is credit management, which covers all facets of credit approval and debt collection processing. OMB has divided the area into five projects, each assigned to one or more lead agencies. These five projects are:

--credit standards, write-off policy and risk analysis,

--credit approval,

--account management,

--collections, and

--portfolio sales.

Lead agency responsibilities for these efforts include designing a pilot project, developing a work plan with milestones and target dates, and reporting project status to OMB.

OMB's efforts should address many of the concerns raised by PPSSCC. OMB's initiatives to restructure the federal government's credit processing were undertaken prior to completion of the PPSSCC study and not in response to its recommendations.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

PPSSCC expressed the opinion that the recommendations can be implemented by executive action. GAO generally agrees with PPSSCC's opinion. Further, PPSSCC's recommendation that individual program officer's performance appraisal refer to default levels may require statutory authority in order to apply to the pay or compensation of employees below the grade of GS-13.

Many of the PPSSCC concerns should be addressed by the initiatives OMB has set forth under "Reform 88." Further, each federal agency currently reports quarterly to OMB on the status of its accounts receivable due from the public. In addition, section 12 of the Debt Collection Act of 1982 requires federal agencies to report, at

least annually to OMB detail data on each loan program. However, not every agency has a system that is capable of providing such data. In order for this information to be provided an agency's system may have to be upgraded thereby requiring an extensive expenditure of funds. The recommendation regarding each direct lending program having explicitly stated maximum acceptable default levels is feasible, can be implemented, and is in accordance with previous GAO recommendations.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO has performed many reviews in the debt collection area. These reviews have not focused on estimating savings that can result by reducing default levels. However, based upon the numerous initiatives that OMB has undertaken in the credit management area GAO believes significant savings can be achieved. GAO however, is not in a position to validate whether the three year projected savings of $763 million can be achieved.

V. RELEVANT GAO REPORTS

GAO/AFMD 83-57	Significant Improvements Seen In Efforts To Collect Debts Owned The Federal Government (Apr. 28, 1983)
GAO/AFMD 83-7	Actions Underway To Reduce Delinquencies In Health Professions And Nursing Student Loan Programs (Dec. 1, 1982)

VI. GAO CONTACT

John Simonette 275-9489

ASSET 18: PRIVATE SECTOR FINANCING

I. PPSSCC ISSUE AND SAVINGS

Should Farmers Home Administration (FmHA) phase out its direct loan programs and the Small Business Administration (SBA) phase out its 7(a) direct loans and move toward partially guaranteed loans through the private sector?

PPSSCC stated that three-year cumulative revenue enhancements of $1,726.1 million, reduced interest costs/ outlays of $100.0 million and cash accelerations of $76.1 million have been identified for a total budget deficit reduction of $1,902 million.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO believes the issue raised by PPSSCC is a policy question to be resolved by the Congress. The Congress generally has viewed FmHA and SBA direct lending as a means to assist small businesses, farmers and rural residents and communities which are unable to obtain, at reasonable interest rates or terms, private financing with or without federal guarantees. By nature, these borrowers and the related direct loans they receive are more risky and were expected to have a higher default rate. Without a direct lending program, there would be groups that would not be able to obtain credit.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

PPSSCC recognized that congressional action would be needed to phase out FmHA and SBA direct loans. GAO concurs that implementing this recommendation would require that the Congress provide no funding for direct lending assistance or repeal authority to provide direct lending. FmHA agrees with PPSSCC recommendations and SBA has made several proposals to the Congress to eliminate its direct lending program.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO could not assess PPSSCC's total dollar estimates.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

John Luke 275-6111

ASSET 23: IMPROVED ACCOUNTING AND REPORTING

I. PPSSCC ISSUE AND SAVINGS

"What data should be gathered to adequately monitor the quality of lending agency portfolios?"

"Savings that would accrue from increased agency accountability and improved management cannot be calculated."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO has long supported the basic thrust of the recommendation to improve the budgeting, accounting, and reporting aspects of credit program management. GAO also welcomes developments such as the revised OMB Circular A-70 ("Federal Credit Policy") issued on August 24, 1984. GAO has not, however, made a recommendation on the best way to account for credit program costs. GAO agrees that the present value of expected losses should be included in credit program costs in the President's budget, and that actuarially sound estimates of guarantee fees, as well as concise accounting for loan portfolio quality and yield, would provide extremely useful information for decisionmaking purposes. However, as the PPSSCC recognized, alternative methodologies can be used for estimating the value of subsidies. And, in the case of large, one-time, single-entity loan guarantee programs, such as that for the Chrysler Corporation, it is not possible to actuarially estimate expected losses. Furthermore, there are important, unresolved questions over whether the responsibility for estimating the costs of guarantee programs should reside with the programming agency or with OMB and, regardless of where responsibility resides, whether there is a need for legislative oversight of the quality of both the methodology and the estimates.

Two problems need to be considered especially carefully in trying to implement the PPSSCC recommendation. One is the rate of interest that loan programs should use in their budgets for calculating subsidies; the second problem is the way in which loan programs handle interest rate risk in their budgets. (See Asset 15 for a discussion of the nature of these problems.)

Although GAO has not taken a position on exactly how to value credit program subsidies for budget purposes, GAO has considered these matters. In 1979 GAO prepared an

exposure draft, cited by the PPSSCC, entitled: A Methodology for Estimating Costs and Subsidies From Federal Credit Assistance Programs (GAO/PAD-79-5, July 17, 1979).

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that implementation authority for this recommendation lies with the executive branch. The Budget and Accounting Act of 1921 authorized the President to develop the budget that is submitted to Congress. He is also authorized to develop and refine the reporting concepts upon which his budget presentation is based. This authority has been used in preparing the revised OMB Circular A-70 that incorporates aspects of this recommendation.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

No savings estimate was provided by the PPSSCC.

V. RELEVANT GAO REPORTS

GAO/PAD-83-12	Catalog of Federal Credit Programs and Their Interest Provisions (Dec. 28, 1982)
GAO/RCED-83-22	Federal Credit Policy on Guaranteed Loans Should Be Clarified and Enforced (Nov. 4, 1982)
GAO/PAD-82-22	The Congress Should Control Federal Credit Programs to Promote Economic Stabilization (Oct. 21, 1981)
GAO/PAD-79-5	Exposure Draft: A Methodology for Estimating Cost and Subsidies from Federal Credit Programs (Jul. 17, 1979)
GAO/PAD-78-31	Federal Credit Assistance: An Approach to Program Design and Analyses (May 31, 1978)

VI. GAO CONTACT

Craig Simmons 275-8678

ASSET 24: ECONOMIC EFFICIENCY OF GUARANTEED GOVERNMENT LENDING

I. PPSSCC ISSUE AND SAVINGS

"Should interest rate subsidies in Federal credit programs be reduced in order to increase productivity and economic efficiency?"

Savings that will accrue from the improved financial asset management resulting from this reduction cannot be calculated directly and were not estimated by PPSSCC.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO believes this issue has merit because of the danger of resource misallocation and the need for greater congressional control over credit subsidy programs. The PPSSCC addresses our concerns about resource misallocation and program control with two recommendations. Specifically the PPSSCC recommends (1) that the subsidy be reduced by allowing interest rates in federal credit programs to rise when market interest rates rise, and (2) that interest rates across federal credit programs be rationalized to ensure that actual subsidies are consistent with program objectives.

Federal credit programs have usually arisen from the premise that credit markets are not allocating enough credit to an activity that Congress judges to be beneficial to society as a whole. In each case the Congress has determined at some point in time that social benefits are greater if credit is redistributed by allocating more to a given activity than the market alone would have allocated to that activity. Thus, the Congress has made a decision to sacrifice certain benefits from a market allocation for broader social benefits. Frequently, however, these decisions are not reconsidered in light of changing market conditions. By raising this issue, the PPSSCC is arguing that under current conditions these programs may be too costly, i.e., the interest rate subsidy is too large.

GAO agrees that the interest rate subsidy for some programs could be too large. The current practice of fixing the interest rate when a program is established could unintentionally cause, in future years, a significant reallocation of credit. This is especially true during periods of abnormally high interest rates. Our recent experience with double-digit inflation and record high interest rates provided increased incentives for investors to qualify for various federal credit programs because these programs had interest rates substantially below market levels. The effect of such a movement would be to crowd out other investors who could not qualify, but may have used the capital more efficiently.

As federal credit programs have expanded, the need for greater Congressional control has become more apparent. In a previous report, we argued that controlling subsidy levels could lead to a more stable economy and a better allocation of credit. Thus we support, in principle, attempts to create a stronger control system for federal credit activity.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

Authority to implement the first recommendation varies by program. In a previous report cataloging federal credit programs, GAO found that in some cases the interest rate charged by the government is set by Congress; in other cases Congress may allow the respective Secretary or program administrator to set the rate. Sometimes the Secretary is given a specific range or authorized to consider the range of rates prevailing in the private sector. The executive could implement the second recommendation on its own authority to the extent that it involved simply presenting to the Congress an analysis of the subsidy costs in different programs and recommendations for program changes based on that analysis. Modification of the way in which Congress considers credit programs in the congressional budget process would require legislative action.

The PPSSCC's first recommendation is feasible. In principle, the PPSSCC's second recommendation is also feasible, but in practice it will be more difficult to implement because data limitations and conceptual problems may complicate the task of developing a measure of the size of credit subsidies that is common across programs.

The OMB has recently attempted to implement the first recommendation and has moved in a direction that is consistent with the second recommendation. On August 24, 1984, OMB issued a revised Circular A-70 to require (1) that interest rates on new direct loans in these programs be related to market interest rates and vary with market conditions, rather than remain at static levels that become outmoded when market conditions change, and (2) that credit legislative proposals contain an explicit statement of any subsidies in the program. If an existing program does not conform to revised Circular A-70, the respective agency, as part of its annual budget submission, must submit to OMB proposed legislative changes that bring about conformity or submit a separate justification for nonconformity.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC did not make an estimate of savings and GAO agrees that such an estimate would be difficult to develop.

V. RELEVANT GAO REPORTS

GAO/PAD-83-12	Catalog of Federal Credit Programs and Their Interest Rate Provisions (December 28, 1982)
GAO/PAD-82-22	The Congress Should Control Federal Credit Programs to Promote Economic Stabilization (October 21, 1981)
GAO/PAD-78-31	Federal Credit Assistance: An Approach to Program Design and Analysis (May 31, 1978)

VI. GAO CONTACT

James Bothwell 275-4083

BUS-INS 14: LOAN GUARANTEES VERSUS DIRECT LENDING

I. PPSSCC ISSUE AND SAVINGS

"Should the Government's credit policy be accomplished through greater use of loan guarantees as opposed to direct lending?"

The PPSSCC did not provide a savings estimate for this proposal.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC recommends that the government, where possible, should move from direct lending to a well-controlled guaranteed loan program. Additionally, the PPSSCC recommended that OMB Circular A-70, which deals with federal credit policy, should be revised and reissued.

GAO supports efforts to seek the least costly way of financing appropriate federal credit program objectives, but GAO believes this is best done on a case-by-case analysis. GAO believes that when taken in isolation, the PPSSCC recommendation to move from direct lending to guaranteed lending would not necessarily lead to better control or lowered costs of federal credit programs. In terms of both applicant screening and qualification as well as the budget process, control over programs could be diminished by moving from federally originated on-budget direct loan programs to privately originated off-budget guarantee programs. In terms of cost, other things being equal, the PPSSCC seems to assume that the private sector would be more successful at servicing loans than the government. This point, however, needs to be demonstrated, not assumed. Over the life of a loan or loan program there is no reason to expect default costs to differ between well-managed direct and guaranteed loans, though loan origination and servicing costs might be reduced somewhat under a loan guarantee program.

With regard to the PPSSCC recommendation to revise OMB Circular A-70, revisions were issued on August 24, 1984, and address the PPSSCC's concerns. Revised Circular A-70 requires those receiving federal loan guarantees to pay for part or all of the expected federal default liability on the guaranteed loans. Circular A-70 also encourages risk sharing with the private sector by offering less than the 100 percent guarantee now frequently used.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that implementation authority to convert direct loan programs to guaranteed ones would require passage of legislation. GAO has issued a number of reports about credit policies, stating that agencies were not sharing the risk with private lenders and were not prohibiting the guarantee of loans with excessive interest rates. Additionally, GAO supported the reissue of revised OMB Circular A-70. GAO also urged Congress to continue to strengthen its procedures for controlling federal credit programs through the budget.

In issuing the revised A-70, OMB recognized that more work needs to be done to implement the Circular. No legislative action has been taken on the PPSSCC recommendation to move from direct to guaranteed loan programs.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

No savings estimate was provided by the PPSSCC.

V. RELEVANT GAO REPORTS

GAO/PAD-83-12	Catalog of Federal Credit Programs and Their Interest Provisions (Dec. 28, 1982)
GAO/RCED-83-22	Federal Credit Policy on Guaranteed Loans Should Be Clarified and Enforced (Nov. 4, 1982)
GAO/PAD-82-22	The Congress Should Control Federal Credit Programs to Promote Economic Stabilization (Oct. 21, 1981)
GAO/PAD-79-5	Exposure Draft: A Methodology for Estimating Costs and Subsidies from Federal Credit Programs (Jul. 17, 1979)
GAO/PAD-78-31	Federal Credit Assistance: An Approach to Program Design and Analysis (May 31, 1978)

VI. GAO CONTACT

Craig Simmons 275-8678

STATE 7: INTEREST RATES ON AID LOANS

I. PPSSCC ISSUE AND SAVINGS

Do the interest rates on new Agency for International Development (AID) loans provide an opportunity for additional revenues? The PPSSCC recommended that AID establish a minimum "base" lending rate for all official development assistance loans based on the cost of funds to the U.S. Government, apply interest rates and maturities on borrower capacity to repay, and deny additional loan principal where the proceeds would be used to pay the higher interest rate debt.

PPSSCC asserted that implementation of these recommendations can be expected to reduce government costs by as much as $60 million annually and, over a 3-year period, would generate $360 million in additional revenues.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

In GAO's opinion, establishing a minimum base rate for concessional lending based on the cost of funds to the U.S. Government would not give AID the flexibility it needs to accomplish U.S. political and security interests.

The long-standing U.S. policy on developmental or concessional AID loans, embodied in foreign assistance legislation, is that terms of assistance should fundamentally reflect the recipient country's level of development and its economic capacity to service the debts it incurs. Debt relief is not to be provided as a form of development assistance. Although the capacity of an economy to service extended credits depends on many factors, the U.S. and other donor nations have used per capita income as the best single measure of a country's level of development, capacity to service debt, and ability to tap the private capital markets.

As a lender of last resort, terms of AID loans are based more on developmental, political and strategic considerations than on economic rationale. Congress recently reinforced this notion in AID's FY 1985 Continuing Appropriations by eliminating the 30 percent "loan floor," i.e., the minimum portion of official development assistance which must be in the form of loans as opposed to grants. Congress also specified that loans to private sector institutions be at or near the cost of money to the U.S. Treasury.

The United States would find it difficult to accomplish foreign assistance objectives without adequate flexibility in loan terms on official aid, given the disparity

in loan recipients' ability to pay and the policy influence the U.S.is seeking to obtain.

III. GAO ASSESSMENT OF IMPLEMENTATION, AUTHORITY, FEASIBILITY AND STATUS

Under foreign assistance legislation, the President has the authority to determine the interest payable on any development assistance loan based on the economic circumstances of the borrower, except that loans may not be made at rates below a specified minimum (3 percent following a 10-year grace period of 2 percent). Food For Peace loans have similar minimum terms, but Economic Support Fund loans have no statutory "loan floor." Thus, the PPSSCC's recommendations can be implemented by executive action. However, AID opposes the principal PPSSCC recommendation that it set a base lending rate based on the cost of funds to the U.S. Government and does not plan to implement it.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The savings estimate anticipates that all new foreign assistance loans be raised by an average of 1 percent annually for the next 3 years. Although the estimated savings appear to be valid in mathematical terms, other factors need to be considered which probably would negate the savings. Borrower capacity to repay the debts they incur and U.S. political/strategic considerations are the prime factors which determine interest rates on AID loans, not cost of funds to the U.S. Government. Overall levels of concessional aid to loan recipients, and the mix of loans and grants that comprise this aid, are intended to meet these objectives. It is possible that some savings could be realized by upward adjustment of interest rates in selected countries as they achieve higher levels of development. In this regard, AID can and does impose higher interest rates and accelerates repayments on loans when it determines that recipient countries have the ability to pay them.

V. RELEVANT GAO REPORTS

GAO/ID-83-23	Donor Approaches To Development Assistance: Implications For The United States (May 4, 1983)
GAO/ID-83-43	Political And Economic Factors Influencing Economic Support Fund Programs (Apr. 18, 1983)
GAO/ID-83-13	U.S. Development Efforts And Balance-of-Payments Problems In Developing Countries (Feb. 14, 1983)

GAO/ID-79-14	Efforts To Improve Management Of U.S. Foreign AID--Changes Made And Changes Needed (Mar. 29, 1979)

VI. GAO CONTACT

Joseph Kelley 275-5790

CHAPTER 3

DEFENSE AND INTERNATIONAL AFFAIRS PROGRAMS

PPSSCC issues affecting defense and international affairs activities were diverse, ranging from broad subjects such as the defense acquisition process to specific issues such as government loans to cover traveling expenses of refugees coming to the United States. In all, GAO analyzed 130 issues in the defense and international affairs program areas. GAO concluded that 101 of these 130 PPSSCC issues examined had overall merit. GAO questioned the merits of 19 issues and had insufficient information on which to develop a position on 10 issues. To fully implement the 130 issues, legislative action would be required in 33 cases. For example, legislation would be required to ensure more consistent and widespread compliance with the government's policy that encourages procurement of goods and services from the private sector when it is more economical than providing the same goods and services in-house with government employees.

The PPSSCC estimated that savings of about $115 billion could be achieved if all of its recommendations were implemented. While GAO concluded that a majority of the PPSSCC issues have merit, it found in many cases that the savings estimates associated with those issues were questionable. In some cases the PPSSCC did not provide sufficient information to enable GAO to assess the estimated savings, and in other instances GAO concluded that the savings estimates were overstated.

OSD 36: DEPARTMENT OF DEFENSE PUBLIC AUDIT COMMITTEE

I. PPSSCC ISSUE AND SAVINGS

"The Department of Defense (DOD) should seek legislation that will permit it to establish a public audit committee comprised of members from the private sector appointed by the President of the United States... to conduct thorough and independent reviews of DOD internal audit practices, procedures, and controls, and to evaluate the adequacy of the internal audit responsibilities, mission, and scope for DOD."

"[I]ncreased importance placed on the audit function will result in substantial savings." However, the savings are "difficult to measure." PPSSCC did not quantify savings for this proposal.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO believes there is no need for a DOD Public Audit Committee. The establishment of a statutory Office of Inspector General (OIG) at DOD on September 8, 1982, centralized audit and investigative functions within DOD and provided for OIG oversight of other DOD internal audit groups. For example, most Defense Audit Service staff and functions were transferred to the DOD-OIG.

According to PPSSCC, the Public Audit Committee would assist or provide guidance to top management on such issues as audit policy and planning, internal controls, audit followup, and coordination between audit organizations. However, these matters in many instances have already been addressed by legislation, existing government auditing standards, or Office of Management and Budget (OMB) directives.

For example, the Federal Managers' Financial Integrity Act of 1982 requires the agency head to report on the adequacy of internal control systems. As a result, OIG will likely increase its review of such systems. OMB Circular A-123 states that IGs are encouraged to provide technical assistance in the agency effort to evaluate and improve internal controls in addition to performing their own reviews of internal control systems.

OMB Circular A-73 establishes policies to be followed in audits of federal operations and programs. The objective of the circular is to improve audit planning, coordination, and follow-up and assure proper application of auditing standards. OMB Circular A-50 sets forth procedures to be followed by agency managers when considering reports issued by federal audit organizations.

PPSSCC does not make clear what the relationship between the DOD Public Audit Committee, the DOD-OIG, and the Secretary of Defense would be. PPSSCC states that the committee's role would be "comparable to that of private sector audit committees, which serve in an advisory capacity to corporate boards of directors" and recommends that "the DOD Public Audit Committee work directly with the Secretary of Defense and the DOD Inspector General." It also proposes that the committee "review the duties, responsibilities, and activities of the Inspector General's Office of DOD..."

GAO believes the DOD-OIG's independence could be affected if the OIG were to report to the Public Audit Committee rather than to the Secretary of Defense. GAO also believes that private sector executives whose firms do business with DOD could be seen as having a potential conflict of interest if they served on the DOD Public Audit Committee. PPSSCC does not state if such persons would be excluded from committee membership.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with PPSSCC that establishment of a DOD Public Audit Committee would require congressional action.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

PPSSCC did not quantify the savings that would result from establishment of a DOD Public Audit Committee.

V. RELEVANT GAO REPORTS

GAO/OCG-84-3	Implementation Of The Federal Managers'Financial Integrity Act: First Year (Aug. 24, 1984)
GAO/AFMD-83-33	DOD Can Combat Fraud Better By Strengthening Its Investigative Agencies (March 21, 1983)
FGMSD-80-39	GAO Findings On Federal Internal Audit--A Summary (May 27, 1980)

VI. GAO CONTACT

John J. Adair 275-9359

OSD 37: PROCUREMENT AUDIT SERVICE

I. PPSSCC ISSUE AND SAVINGS

Should DOD establish a central audit group, the Procurement Audit Service, with responsibility for internal audit of all DOD procurement practices?

> "The Procurement Audit Service should report to the DOD Inspector General. The financial impact of this recommendation is very difficult to quantify. Assuming a productivity factor of .5 percent through improved audit and review, the Office of the Secretary of Defense (OSD) Task Force estimates cost avoidance and efficiency improvements could total about $500.0 million annually. Potential non-financial benefits are discussed below."

> "There may be some implementation cost, not quantified here, to the extent that additional personnel are required to handle assignments previously performed by auditors. In light of the authorization of 100 new spaces for procurement auditing in the FY 1983 budget, and the transfers proposed herein, further additional personnel may not be required."

PPSSCC estimated savings in the first 3 years, assuming an annual inflation factor of 10 percent, would be $1,655 million.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATION

PPSSCC concluded that there was no centrally directed, comprehensive oversight review of the entire procurement process. The OSD Task Force felt that a highly trained, specifically directed procurement audit force would provide significant monetary benefits. Equally important, according to the Task Force, are the following potential nonfinancial benefits:

- --high level, independent audits of procurement and research and development expenditures;
- --coordination of procurement audits;
- --ranking of procurement audits by priority; and
- --uniform and consistent procurement audit policies.

GAO agrees with the PPSSCC's objectives in recommending a Procurement Audit Service. However, GAO believes that the DOD Inspector General is already mandated to accomplish these objectives as a part of its overall responsibilities under the Inspector General Act of 1978, as amended.

GAO notes that the Inspector General has taken several steps intended to strengthen procurement and contract auditing in DOD. For instance, it established a contract audit policy and oversight group. Also 168 people were assigned to the Assistant Inspector General for Auditing and organized into major audit groups concerned with such areas as (1) major acquisition programs, (2) acquisition support programs, and (3) contract audit programs. This staff is in addition to military audit service staffs, who work on procurement audits, and Defense Contract Audit Agency staff, who audit contractor costs and operations. The Inspector General may request audit assistance as needed from these other audit organizations.

Given the emphasis the DOD/IG is placing on procurement audits, GAO disagrees with the PPSSCC recommendation to establish a Procurement Audit Service.

III. ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The objectives of the PPSSCC recommendation have been met by establishment of the DOD/IG and the steps it has taken to increase procurement audits. Since the DOD/IG has the necessary procurement audit authority, the Secretary of Defense could establish the Procurement Audit Service envisioned by PPSSCC through administrative orders. However, as stated above, GAO believes the DOD/IG has already been mandated to accomplish the objectives of establishing a Procurement Audit Service.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO believes that increased audit attention will lead to procurement system improvements and savings to the government. However, PPSSCC did not provide sufficient information for GAO to assess the validity of the savings estimates. Further, GAO does not believe it is possible to estimate or identify the specific (percentage) impact this effort will have on procurement costs now or later.

V. RELEVANT GAO REPORTS

GAO/AFMD-84-57	Audits of Federal Programs: Reasons for the Disparity Between Costs Questioned by Auditors and Amounts Agencies Disallow (August 8, 1984)
GAO/AFMD-84-4	Department of Defense Progress in Resolving Contract Audits (October 27, 1983)

GAO/NSIAD-83-54	More Effective Use of Audit Reports Needed to Reduce Contract Costs (October 11, 1983)
GAO/AFMD-82-26	Who is Watching the Defense Dollars? (February 5, 1982)

VI. GAO CONTACT

Paul Math 275-4587

<u>NAVY 3 AND USAF 20: DUAL SOURCING</u>

I. PPSSCC ISSUE AND SAVINGS

PPSSCC believes the Navy should take actions to increase competition in the acquisition of major weapon systems by maintaining at least two sources during the entire production life of Navy weapon programs. PPSSCC also believes that the Air Force can implement, monitor, and manage its dual source programs more effectively.

PPSSCC estimates that a savings of approximately $1.02 billion can be achieved over a 3-year period by maintaining at least 2 competitive sources during the entire production life of Navy weapon programs. PPSSCC also estimates that better use of dual sourcing will decrease Air Force weapon acquisition costs by about $342 million during the first year of implementation and about $2.42 billion over 3 years.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

PPSSCC proposes dual source procurement as a means for obtaining additional competition in the acquisition process. Under dual sourcing, production contract awards are split between two or more sources, with the larger share usually going to the lower price supplier. In the past, the primary objective of dual sourcing has been to assure an adequate industrial mobilization base. In essence, PPSSCC recommended that each service: (1) develop guidance and methodology for identifying dual source candidates, (2) evaluate all procurement programs for their suitability for dual sourcing, (3) provide up-front funding when dual sourcing is cost effective, and (4) revise regulations to permit and encourage dual sourcing.

GAO concurs with the need for dual sourcing guidance, but believes that DOD should develop and provide the services <u>uniform</u> guidance for price competitive dual sourcing rather than each service developing its own.

GAO also concurs with the PPSSCC recommendation regarding the need for evaluating programs for their general suitability for dual sourcing, prior to the performance of full cost/benefit analyses. GAO doubts, however, that it would be practical or cost effective to require that all programs undergo full cost/benefit analysis. GAO believes it appropriate to first screen the programs against a standard set of procurement characteristics indicative of potentially good dual source candidates which, in part, might include: (1) high assurance of large quantity procurement, (2) high level of design stability, (3) delivery schedules which provide sufficient time for second

source development and qualification, (4) little need for new or additional tooling, equipment, or facilities to establish second source production capability or capacity, and (5) minimal dependency upon proprietary data and processes. Full cost/benefit analyses could then be made to select the most cost effective programs from the field of screened candidates.

Regarding PPSSCC's third recommendation, GAO agrees that implementation of a dual sourcing decision may require a substantial government investment to cover the costs for establishing a second source. Additional costs are also involved in maintaining a second source once it is established. Because dual source procurement's cost effectiveness has not been demonstrated, GAO believes DOD should proceed cautiously in using the new authority in Public Law 98-369. This legislation will, on April 1, 1985, expressly authorize use of production dual sourcing by DOD and civil agencies when (1) it will increase or maintain competition and likely result in reduced costs or (2) national defense purposes specified in the Act will be served.

GAO also concurs with the PPSSCC's fourth recommendation that agency regulations should be revised to implement the new authority for price competitive dual sourcing coincident with the effective date of Public Law 98-369.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

Prior to the enactment of Public Law 98-369, authorization for dual sourcing solely for production price competition had not been resolved and, in GAO's view, it was not clear that agency regulations could be revised to authorize this form of dual sourcing without statutory amendment. However, since this recent legislation removes the uncertainty about the use of dual sourcing, GAO believes official DOD policy and guidance need to be developed to implement the new authority. DOD has informed GAO that it is developing guidance and analytical methodology for competitive production dual sourcing.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC savings expectations derive from an assumption that dual sourcing is a cost effective procurement strategy. Based upon available evidence reflected in prior GAO reports, GAO believes the cost effectiveness of the dual sourcing concept is uncertain and remains to be demonstrated. For example, in a recent report, GAO reviewed Army, Navy, and Air Force use of dual sourcing and concluded that

the award of a larger share of a production quantity or a higher percentage of profit to the low price dual source supplier can provide some incentive for production price competition. But maintenance or improvement of the industrial mobilization base has been the primary objective of dual sourcing, and GAO found insufficient evidence to conclude whether or not the incentive generates price reductions adequate to yield a net overall reduction in cost when all recurring and nonrecurring costs for establishing and maintaining a second source(s) have been counted. GAO also reached a similar conclusion in two earlier reports concerning consideration for dual sourcing the IR Maverick and HARM missile programs.

The PPSSCC savings estimates are based on various assumptions which GAO could not validate. For example, PPSSCC states that its savings estimate of $340 million a year ($1.02 billion over 3 years) through dual sourcing of Navy programs was derived from general assumptions, since actual data was not available to support service-wide conclusions. PPSSCC also states it found insufficient data on the actual results of past dual source procurement to permit a historical analysis of Air Force dual source savings.

V. RELEVANT GAO REPORTS

GAO/NSIAD-84-111	Cost Effectiveness of Dual Sourcing for Production Price Competition Is Uncertain (August 31, 1984)
GAO/NSIAD-83-59	Analysis of HARM Procurement Strategies (September 12, 1983)
Correspondence GAO/IPE	Letter to Senator David Pryor Re: U.S. Air Force's IR Maverick Program (May 4, 1983)

VI. GAO CONTACT

H. Connor 275-4141

OSD 22: ESTIMATING WEAPONS SYSTEMS COSTS

I. PPSSCC ISSUE AND SAVINGS

"The Secretary of Defense should establish procedures to ensure more accurate estimates of weapons costs in order to permit better planning and reduce cost overruns. Specifically, provision should be made for establishing a new production cost baseline at Milestone III. [Milestone III is the major acquisition milestone at which the decision is made to allow a major weapon system acquisition program to continue into the production phase of the acquisition process.] The Secretary should also establish procedures to create a policy-oriented data base for use by DOD management. The Department of Defense Comptroller should be assigned the responsibility for analyzing the affordability of proposed weapons systems and for monitoring actual costs versus estimated costs. Internal DOD budget data should not be disclosed to contractors at the preaward stage, because such disclosure encourages contractors to submit bids that are less than their own internal cost estimates. In addition, prior to issuing a Request for Proposal (RFP), DOD should consult with industry in order to give contractors a better understanding of the complexity of the project. Finally, in order to give contractors more incentive to estimate costs more realistically, contracts should be used which require contractors to absorb a greater share of cost overruns."

PPSSCC found that improved cost estimates which, in most cases, would be higher than existing cost estimates would result in the elimination of an estimated 3 to 10 percent of major programs prior to entry into production. Improvement in the estimation of weapons systems costs is a necessary condition for reduction in instability in the weapons acquisition process. PPSSCC did not attempt to calculate discrete savings attributable to its recommendations regarding each of these two issues. Estimated savings from the reduced instability recommendations (Issue OSD 23) include potential savings attributable to better estimation of weapons systems costs.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC recommends procedures leading to more accurate DOD cost estimates so that better decisions can be made regarding weapon systems and so cost overruns can be reduced. GAO agrees that DOD should develop better cost estimates and that decisionmakers should have better information to use in their deliberations regarding weapon systems.

The PPSSCC recommends that more emphasis be placed on affordability by assigning the responsibility for analyzing the affordability of weapon systems to the DOD Comptroller. GAO would agree that affordability should be given more emphasis and assigning this responsibility to the Comptroller may provide an independent evaluation of weapon system affordability made in the context of a broad perspective of DOD financial matters.

The PPSSCC also recommends DOD use the higher of the Cost Analysis Improvement Group (CAIG) or program office estimates when budgeting the acquisition of weapons systems. However, GAO believes that arbitrarily using the higher of the CAIG or program office estimates may limit the responsibility of the services to develop accurate cost estimates. Because the CAIG analysis--which is not necessarily a complete and detailed estimate--usually results in a higher figure than the program office estimate, the CAIG would be setting the budget for the services' programs.

GAO agrees that the Milestone III cost estimate should be established as a baseline for measuring cost growth. GAO believes at this point in the acquisition process DOD should have a clear understanding of the configuration of the weapon system and can make a reasonably accurate cost estimate. Furthermore, GAO believes that in order to maintain cost discipline, this estimate should be established as a not-to-exceed threshold. However, in order for decisionmakers in the Congress and in DOD to understand the context--in terms of the reliability of the weapon system's cost estimates--in which they are making their decisions, the cost history of the weapon system should be retained. In addition, GAO believes the decentralization policy pursued under the Acquisition Improvement Program (Carlucci Initiatives) has blurred the distinct production decision point (Milestone III). Under the new policies Milestone II (program go-ahead) is the last program approval decision made by the Secretary of Defense. The Milestone III (production) decision has been decentralized to the services. Because the Milestone III decision is no longer made by the Secretary of Defense this decision may lose some of its significance. Making the cost estimate associated with the Milestone III decision a not-to-exceed threshold would force more attention to this estimate and renew the visibility of the Milestone III decision.

The PPSSCC recommends placing more financial responsibility on contractors by using contracts that require contractors to absorb a greater share of cost overruns. This recommendation appears meritorious in theory because it should encourage more realistic cost estimates, however, GAO knows of no empirical evidence which demonstrates that the theory is correct.

The PPSSCC recommends withholding budget data from contractors so they cannot tailor their bids to fall within the programs budget constraints. Because the Defense budget is debated publicly it is unlikely that this recommendation is workable. In addition, the potential for abuse, in terms of manipulation of the budget figures--by reporting fewer units than actually planned, using low cost estimates, using funds for purposes other than those they are budgeted for, and so on--resulting from cutting off public scrutiny of the DOD budget may outweigh the benefits of stopping contractors from tailoring their bids to a program's budget constraints.

The PPSSCC recommends DOD, prior to the issuance of a Request for Proposal, should informally consult with potential contractors in order to aid in contractor understanding of the project and to allow contractor input. The PPSSCC states that "studies have indicated that some cost underestimation results when contractors do not fully understand the scope and complexity of the program." Consulting with potential contractors appears to be a workable idea and is being done in some cases in the form of Requests for Information.

The PPSSCC recommends a more useful Selected Acquisition Report (SAR) format be pursued. It is difficult to comment on the merits of this recommendation because the PPSSCC was not specific on the format changes. However, GAO strongly supports making the SARs more informative and easier to comprehend to a busy reader. GAO also believes it is important that the data in the SARs be made more reliable. At present, much of the cost data in the SARs is taken from memorandum records, rather than from the DOD accounting systems.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC recommendations appear to be possible to implement through executive action.

Assigning responsibility for affordability decisions to the OSD Comptroller appears feasible although it may cause some organizational disputes within OSD.

Using the higher of the CAIG or program office cost estimates would require the CAIG to make complete cost estimates on all programs. Given the time it takes to do an estimate and the fact that the CAIG only reviews estimates, and it only reviews those estimates of major programs that are going through a Defense System Acquisition Review Council review, it does not appear practical to implement this recommendation without a significant increase in CAIG staff.

Establishing a new production cost estimating baseline appears possible to do. The danger, as discussed in section II, is that the cost history of the program may be lost.

Using contracts that would place more financial responsibility on contractors would depend upon DOD's ability to negotiate the necessary contract types.

The PPSSCC recommendation regarding releasing Requests for Proposals to industry without disclosing budget figures does not appear possible to implement because it does not appear practical for DOD to withhold budget figures from the public.

Informal consultations with contractors before the issuance of a Request for Proposals seem feasible. Something similar is being done through Requests for Information.

Revising the SAR is feasible. Determining a format that is useful to both DOD and the Congress which is easily and quickly understood is the problem.

IV. GAO ANALYSIS OF THE SAVINGS ESTIMATE

No dollar savings were estimated for the recommendations of the issue, however, $5.26 billion were estimated to accrue from an overall reduction in instability in the acquisition process (PPSSCC Issue OSD-23) which may result in part from the recommendations of this issue.

V. RELEVANT GAO REPORTS

GAO/NSIAD-84-70	DOD Needs to Provide More Credible Weapon Systems Cost Estimates to the Congress (May 24, 1984)
GAO/PSAD-80-37	"SARs"--Defense Department Reports That Should Provide More Information to the Congress (May 9, 1980)

VI. GAO CONTACT

Paul Math 275-4587

PROC 8: COST ESTIMATING AND SCHEDULING

I. PPSSCC ISSUE AND SAVINGS

"How can current estimating, scheduling, and risk management techniques be improved and incentives put into the system to improve cost/schedule estimates and produce the 'most likely' results?"

The PPSSCC estimates improved systems can result in 3-year cost savings of $2,940 million.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

This PPSSCC issue appears to be valid as evidenced by DOD's historic tendency to underestimate program costs.

One of the two PPSSCC recommendations includes strengthening the services' cost estimating and scheduling functions, instituting greater discipline over cost estimates, and improving "early warning" indicators of cost problems. These items have merit--it is certainly desirable to strengthen DOD's cost estimating function. This recommendation, if adopted, should lead to better cost estimates.

The other recommendation suggests the Selected Acquisition Reports (SARs) show cost figures adjusted for inflation and quantity changes, and the SARs be rebaselined when significant configuration changes occur.

The SARs now present cost figures showing the impact of escalation shortfalls and quantity changes. The SARs also present cost estimates in constant dollars and in escalated dollars. The SARs also show the unit cost of the weapon in constant and escalated dollars. The PPSSCC's recommendation regarding inflation and quantity changes would, therefore, not appear to have much impact because it is recommending things that are already being done by DOD.

Rebaselining major systems that undergo major changes would provide DOD the opportunity to update the SAR figure shown as the development estimate. Comparisons of the SAR current estimate to the SAR development estimate would no longer be possible. Thus, GAO believes that any rebaselining of a major weapon system should not be done unless a clear track of the cost history of the program is maintained.

III. ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC lists 13 steps for implementing its recommendations. Some of these steps appear feasible. Others appear more difficult to implement. It appears that the recommendations could be done through executive action except, perhaps, for the changes to the SAR. Depending upon their extent, changes to the SAR format or rebaselining may require legislative action.

Integrating the estimating and scheduling functions and strengthening those functions appears feasible. Improving the services' systems for expressing the confidence they have in their estimates (referred to as an estimate classification system by the PPSSCC) appears feasible but making those classification systems define the statistical accuracy of the estimates is more difficult. It is more difficult for the same reasons that make identifying program risks, establishing contingency reserves, and presenting range estimates difficult--DOD does not want to make public any estimate except the budget estimate of its officially approved program for the weapon system.

Budget estimates are point estimates, not ranges, and DOD believes that the Congress will cut out reserves for contingencies contained in range estimates when it reviews the DOD budget requests. GAO agrees with the PPSSCC that the risks inherent in the development and procurement of a weapon system that could cause the acquisition of that system to be delayed or go over budget should be identified, and contingency reserves established to account for those contingencies. However, these reserves should be established on an individual program basis, rather than on a blanket percentage of budget basis, and should be reviewed thoroughly to ensure the reserve is fully justified. In addition, although management reserves have been established for some programs, these reserves are usually not established because they are one of the first elements cut in the budget review process.

The PPSSCC recommends an approach to forecasting escalation which focuses on the specific weapon system. Some steps have been taken that would address this recommendation. DOD has received approval from OMB to use different escalation rates for different types of weapon systems. The objective is to use forecasting rates that more closely approximate the actual experience of the industry.

The PPSSCC recommendations regarding SAR reporting and cost estimate rebaselining would probably be relatively easy for DOD to implement. However, as discussed earlier, rebaselining should not result in the loss of a system's cost history.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC based its estimate of the savings for this issue on a comparison of the observed performance of DOD in the acquisition process and the performance of the private sector in the implementation of major capital investments for new facilities. No details were provided that would allow a determination of whether this is a valid approach based on valid assumptions. Thus, GAO cannot verify the validity of these estimates.

V. RELEVANT GAO REPORTS

GAO/NSIAD-84-70	DOD Needs to Provide More Credible Weapon Systems Cost Estimates to the Congress (May 24, 1984)
GAO/MASAD-81-7	Recommendations to Improve Defense Reporting On Weapon Systems (March 2, 1981)
GAO/PSAD-78-12	A Range of Cost Measuring Risk and Uncertainty In Major Programs--An Aid to Decisionmaking (February 2, 1978)
B-163058	Theory and Practice of Cost Estimating for Major Acquisitions (July 24, 1972)

VI. GAO CONTACT

Paul Math 275-4587

I. PPSSCC ISSUE AND SAVINGS

These three issues discuss the increased use of multiyear contracts for weapon systems and civil acquisitions, and the potential cost savings associated with multiyear contracting. The PPSSCC identified single-year and out-year savings estimates. A summary of single-year savings attributed to DOD's increased use of multiyear contracting totals approximately $2.85 bilion. A three-year estimate totals approximately $6.065 billion.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

PPSSCC advocates the increased use of multiyear contracting for civil and defense agencies, and presents 10 recommendations to support its position. GAO has been supportive of the multiyear contracting initiative in both the defense and civilian sectors. However, this support has been caveated with the need for caution and safeguards to assure that the intended benefits are achieved. In addition, these benefits should exceed any added risks to the government.

GAO's analyses of DOD's proposed multiyear contracts have shown that some candidates have not clearly met the legislated multiyear contracting selection criteria contained in P.L. 97-86.

GAO supports 5 of PPSSCC's 10 recommendations. GAO agrees with those recommendations related to the increased use of multiyear contracting, provided its application is appropriate, consistent with the legislative criteria, and its use will yield savings to the government.

GAO also supports PPSSCC's recommendation to use present value analysis (discounting) in evaluating multiyear candidates. Several GAO reports have emphasized the importance of this analysis.

The remaining recommendations generally involve internal agency matters related to multiyear contracting. For example, one recommendation states the services, OSD and OMB should work together to develop a strong approach to Congress, thereby gaining more multiyear contract approvals. Another states that OSD should establish a position as a focal point for review and maintaining the multiyear contracting initiative. GAO has not conducted previous work on these matters and therefore has no opinion on these recommendations.

III. GAO ASSESSMENT OF IMPLEMENTATION, AUTHORITY, FEASIBILITY, AND STATUS

DOD has had multiyear contracting authority since the 1960's and increased authority since enactment of P.L. 97-86 in 1982. DOD has awarded many large multiyear contracts and currently submits proposed multiyear contracts annually for Congressional selection. GAO believes that under appropriate circumstances, multiyear procurement is feasible and can produce budgetary savings.

IV. GAO ANALYSIS OF SAVINGS ESTIMATES

GAO has not identified savings of the magnitude PPSSCC presents. PPSSCC's savings estimates of almost $3 billion a year are based on service-provided estimates and applying a general percentage (7.5 percent) to the DOD procurement budget. GAO has questioned the quality of service estimates in several of its reports. GAO further questions the application of a general percentage because no basis exists to select one rate to apply to the entire DOD procurement budget.

In addition, PPSSCC recognizes the need for present value analysis in its discussion of multiyear issues and in one recommendation. However, its savings estimates are presented in budget dollars unadjusted for the earlier expenditures of funds generally inherent in multiyear contracting, and the time value of money.

V. RELEVANT GAO REPORTS

NSIAD-85-9	Analysis of the Department of Defense's Fiscal Year 1985 Multiyear Procurement Candidates (Oct. 25, 1984)
NSIAD-84-74	Analysis of Benefits Realized from Multiyear Contracting for the Black Hawk Helicopter (May 9, 1984)
NSIAD-83-70	Analysis of Multiyear Procurement Candidates Included in Defense's Fiscal Year 1984 Budget Request (Sept. 30, 1983)
NSIAD-83-57	Analysis of Fiscal Year 1984 Budget
NSIAD-83-57A	Requests for Approved Multiyear Procurements (Sept. 30, 1983)

VI. GAO CONTACT

Paul Math 275-4587

ENERGY 15: PRODUCTION OF PLUTONIUM AND TRITIUM

I. PPSSCC ISSUE AND SAVINGS

"How can reactor products for defense purposes--plutonium and tritium--best be provided? By expediting a decision on the site and design of a new production reactor (NPR), gaining approval for initial construction funding in FY 1984, and bringing this vitally needed facility into operation by the mid-1990s on a tightly monitored schedule, hundreds of millions of dollars in escalated construction costs can be avoided."

The PPSSCC noted that the Department of Energy (DOE) estimated that, by minimizing the effects of inflation, $250 million or more might be cut from the eventual total cost of the NPR (about $6 billion), and that the earlier availability of the NPR would also hedge against present risks in supplying special nuclear materials (plutonium and tritium) required by the Department of Defense (DOD).

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC made three recommendations within this issue. Energy 15-1 recommended that DOE, the Office of Management and Budget, and the Congress vigorously support the necessary funding to complete several DOE initiatives to increase nuclear materials production for weapons activities, begun in fiscal year 1981. Energy 15-2 recommends prompt construction of the NPR and Energy 15-3 recommends conducting annual reviews of the NPR project's progress, its current estimated total cost, and its justification, including periodic reexamination of all alternative sources of supply for the special nuclear materials required for national defense.

GAO concurs with the PPSSCC's support for funding of the DOE's nuclear materials production initiatives (Energy 15-1). Since the late 1970s, GAO has been interested in the DOE's ability to meet DOD's nuclear weapons and nuclear materials requirements. In a 1981 report (C-MASAD-81-21), GAO assessed the capabilities of DOE's nuclear weapons complex to respond to a surge in annual requirements between 1982 and 1989. The report made several recommendations to the Secretaries of Energy and Defense to strengthen DOE's long-range planning and to better ensure the timely implementation of material production initiatives and weapons complex restoration. We also suggested that the Congress could use DOE's long range plans to verify progress in achieving the goals and objectives.

Since 1981, DOE has been pursuing various initiatives to meet the defense nuclear materials requirements whose continued funding is supported by the PPSSCC's Energy 15-1 recommendation. For example, some of the initiatives and their current status, according to DOE, include:

(1) restart of the Savannah River Plant's "L" nuclear materials production reactor which had been shut down in 1968; restart has been delayed until at least the fall of 1985;

(2) conversion of the Hanford Plant's "N" reactor to weapons-grade plutonium production, which was completed in 1982; and

(3) restart of the Hanford's PUREX plant, which had been shut down in 1972, to recover plutonium and uranium from the "N" reactor's spent fuel elements; PUREX restart was completed ahead of schedule in November 1983.

GAO is supportive of the management principles proposed for the NPR major acquisition (Energy 15-2 and 15-3), but believes the requirement for the NPR acquisition must first be justified due to the large budgetary implications required for its construction.

Considering the age and condition of the present materials production reactors and the 10- to 12-year lead time required to bring a new reactor on line, DOE believes that design and construction of an NPR should begin promptly to assure a continued reliable source of tritium to maintain the nuclear weapons stockpile. While the DOE has not received all the congressional approvals required to initiate the environmental impact statement (EIS) process, the EIS is planned to cover three reactor concepts and three potential sites. DOE plans to make a recommendation to the President in mid FY 1985 on the concept and site so that the NPR can be considered in the FY 1986 budget cycle. Because DOE has not received full congressional approval to initiate the formal EIS process, the final EIS will not be ready for the mid FY 1985 recommendation to the President.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The DOE has the authority to implement these recommendations, but needs the support of both the Office of Management and Budget and the Congress to obtain the necessary funds.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC noted that DOE estimated escalated construction costs totaling $250 million or more could be avoided if DOE gained early funding approval for initial construction of the NPR. However, due to the uncertainty of the validity of this cost savings, the PPSSCC did not include this prospective cost avoidance in its final report totals.

GAO agrees with PPSSCC that the savings are questionable given that the range of estimates for the NPR go from $3 billion up to $16 billion as well as the uncertainties associated with future inflation rates.

V. RELEVANT GAO REPORTS

GAO/C-MASAD-81-21	Department of Energy's Weapons Complex--Increased Demand on Aging Plants (September 25, 1981)
GAO/MASAD-81-33	Department of Energy Can Improve Management of the Acquisition of Major Projects (June 22, 1981)
GAO/C-PSAD-80-3	Uncertain Requirements Complicate Planning and Production Decisions for Nuclear Materials (December 10, 1979)

VI. GAO CONTACT

John Landicho 275-6504

ENERGY 17: MULTIPLE INERTIAL CONFINEMENT FUSION PROGRAMS

I. PPSSCC ISSUE AND SAVINGS

"Is it cost-effective to continue three different programs in an effort to produce nuclear fusion through inertial confinement? If, by the end of FY 1983 the choices are narrowed to the two approaches that best fit the needs of defense programs, the least promising effort could be terminated, saving approximately $25 million the first year and more than $40 million in each of the two subsequent years."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The Department of Energy's (DOE) Inertial Confinement Fusion program is to study weapons physics and assist in nuclear weapons research, development and testing activity. Inertial fusion may also have a long-term potential for commercial power production. The program includes three major efforts:

(1) the ANTARES carbon dioxide (CO_2) gas laser project at Los Alamos National Laboratory;

(2) the NOVA glass laser project at Lawrence Livermore National Laboratory. This effort is supported by experimental activity at KMS Fusion, Ann Arbor, Michigan; the Laboratory for Laser Energetics of the University of Rochester; and the Naval Research Laboratory (NRL); and

(3) the Particle Beam Fusion Accelator-II facility at the Sandia National Laboratory, Albuquerque, New Mexico, whose pulse power activity is supported by NRL.

The PPSSCC noted difficulty in trying to analyze the technology involved in the program. PPSSCC evaluated the program from a purely budgetary perspective. The PPSSCC recommended in Energy 17-1 that DOE accelerate its selection decision on which two of the three competing efforts should continue. PPSSCC pointed out that such a cut would involve some increase in technical risk.

In Energy 17-2, the PPSSCC recommended that the University of Rochester effort be reassessed to ascertain whether it is sufficiently germane to near-term objectives to warrant continued support by the DOE defense programs; if not, it recommended that budgetary support should come from other sources.

DOE evaluated and disagreed with an Inspector General recommendation, similar to Energy 17-1, to cut out one effort. The Inspector General recommended that the ANTARES project be discontinued.

The Administration's FY 1985 budget request for the Inertial Confinement Fusion program did not fully fund operations for all three major efforts. Congress, however, supported continuance of all three major efforts in anticipation of the 1987 technical evaluation and increased funding to maintain the program operations.

Congress in FY 1985, also directed the establishment of a presidentially-appointed Technical Review Group to review the Inertial Confinement Fusion program's accomplishments, goals and anticipated contributions and report its findings before May 1986.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO believes that DOE, while it has the authority to implement the PPSSCC recommendations, would need the support of the Office of Management and Budget and the Congress. Actions supporting the PPSSCC recommendations have not been forthcoming to date.

GAO has no basis to evaluate the technical merit of the PPSSCC recommendations. However, GAO believes that DOE will resist making a selection decision on the research program before 1987 when test data are to be available. Further, the Congress has been supportive of DOE's continuing all three major efforts.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO has no basis on which to analyze the PPSSCC estimate of savings. GAO believes, however, the PPSSCC saving estimates have been overtaken by events. Congress believes the experimental efforts offer great promise to the nuclear weapons program and possibly for commercial

power production and has consistently increased funding from that shown in the Administration's budget requests.

V. REVELANT GAO REPORTS

None

VI. GAO CONTACT

John Landicho 275-6504

ASSET 1: DEPARTMENT OF DEFENSE CONTRACT FINANCING

I. PPSSCC ISSUE AND SAVINGS

PPSSCC makes three recommendations under the issue of DOD contract financing. The first two deal with the need for a DOD acquisition policy study to address Contract, Pricing, Profit, and Financing and a DOD capability to perform sophisticated management analyses of existing and proposed acquisition policy actions. The third recommendation, the only one with a specific savings identified, deals with progress payments.

For the third recommendation, 3-year cumulative reduced costs/outlays of $9,425 million and reduced interest costs/outlays of $1,725.2 million were identified by PPSSCC for a total budgetary impact of $11,150.2 million.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

Concerning PPSSCC's recommendation on progress payments rate, GAO believes that no action on the recommendation should be taken until the issue is thoroughly examined.

The PPSSCC recommends that the current progress payment rates on negotiated contracts (90 percent for other than small business and 95 percent for small business) be returned to the February 1981 levels of 80/85 percent. This would be accomplished by modifications to the Defense Acquisition Regulation which govern defense procurement and subsequently limiting the progress payment provision in each applicable negotiated contract to 80/85 percent. The PPSSCC bases its recommendations on its understanding that the 10-percent rise in rates was temporary, pending the development of a flexible progress payment system. In September 1981, the flexible progress payment system was established. With the availability of flexible progress payments, PPSSCC recommends that the 10-percent increase in progress payments should be rolled back.

PPSSCC's recommendation does not take into account that the 10-percent increase in rates consists of two 5-percent increases which occurred in March and August of 1981. Only the first of these two 5-percent increases was related to development of a flexible progress payment system. The second was based on DOD's analysis that restricting contractors to uniform monthly billings for progress payment purposes was desirable. DOD provided the second 5 percent (from 85/90 percent to 90/95 percent) to make up for the elimination of biweekly (every 2 weeks) progress payment billings.

The PPSSCC's merging of the two 5 percent increases and subsequent recommendation to roll the 10 percent back does not address the validity and appropriateness of DOD's action to provide the second 5 percent increase in exchange for limiting the frequency of progress payments to monthly. Further, with regard to the first 5 percent increase, the PPSSCC recommendation is made in the absence of an assessment of the recommendation's impact on contract terms and conditions. One area in which the impact is likely to be felt is the reaction of contractors to the removal of something they value (a more positive cash flow). To an unknown extent contractors are going to expect changes somewhere else in the terms and conditions of government contracts to compensate for what they are surrendering. Thus, the net benefit which would result from the recommendation is unclear.

Concerning PPSSCC's recommendation on an acquisition policy study, GAO concurs with the finding and conclusion that DOD needs to conduct an acquisition policy study with a broad scope which addresses the interrelated aspects of contract pricing, costing, profit, and finance. In an October 1983 speech, the Comptroller General observed that a review of DOD profit policy was overdue. This observation was based on events which have taken place since the last DOD profit study in 1975, including the elimination of the Renegotiation Board and the Cost Accounting Standards Board, the abolition of the Vinson-Trammell Act, and the changes in the economic condition of the country. DOD is conducting such a study now.

Concerning the PPSSCC recommendation on DOD computing capability, GAO agrees with the finding and conclusion that DOD does not possess adequate management data analysis capabilities to comprehensively analyze on a prospective basis the anticipated impact of its policy actions. GAO believes this is an area which needs specific attention and further study.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC's recommendation to scale back the progress payment rates on Defense contracts to the pre-1981 level could be accomplished within DOD's existing regulatory authority. This change would only affect contracts awarded after the regulatory change was made. The feasibility of any action on this recommendation is pending the outcome of DOD's study of Defense contract financing, profit, and pricing policies. As part of the Defense Financial and Investment Review (DFAIR), as the study is titled, the study group is examining the appropriateness of DOD contract financing policies and their relationship to contract profits and pricing. The study is currently scheduled to be completed by May 1985.

DOD is currently conducting the broad based acquisition policy study recommended by the PPSSCC. GAO is monitoring the study and will report to congressional committees on GAO's evaluation of the study and its recommendations.

Based on the state of the art in data base management and the level and detail of the acquisition policy analyses desired, the implementation of the PPSSCC's recommendation to establish a data base system is feasible. The Defense Financial and Investment Review study is examining the feasibility of establishing a "feedback" monitoring system. Indications are that this may be the first step in implementing a data base management system. GAO will review and evaluate the study group efforts in this area.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO believes that the savings estimated for rolling back progress payments are not realistic. It is likely that contractors will demand and frequently receive changes in terms and conditions commensurate with the benefit they are surrendering (lower progress payments). If the recommendation was implemented GAO doubts that savings of the magnitude cited could be achieved. There were no savings estimated for the two remaining recommendations.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

Paul Math 275-4587

NAVY 5: WEAPONS SYSTEMS TRAINING NEEDS

I. PPSSCC ISSUE AND SAVINGS

"Would earlier introduction of training requirements into the weapons system acquisition process result in savings? Better accommodation of training needs would result in estimated savings of $100-$200 thousand for minor weapons systems and up to $1 million or more for major systems."

The PPSSCC states, "Accurate estimations of cost savings under this issue are difficult because of the number, size and diversity of weapons systems. The record shows, however, that the training reprogramming cost for small systems has run from $100-$200 thousand, as a minimum, and from several hundred thousand to over a million dollars for a large, highly technical system. Given the sizeable number of weapons systems, it is evident that opportunities exist to avoid costs totalling many millions of dollars."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

PPSSCC recommended that training requirements be identified early in the planning process of new systems. The need for improvements in the manpower, personnel, and training (MPT) planning process for new systems has been documented by GAO. In a recent report (GAO/NSIAD-84-6), GAO acknowledged that the Navy recognized the problems in MPT and developed the Military Manpower versus Hardware Procurement (HARDMAN) methodology to address them. Among other things, the HARDMAN methodology is designed to help weapon system project managers analyze potential hardware/manpower trade-offs by (1) identifying total quantity and quality of personnel and training needed to support each design option, and (2) estimating the cost of MPT over the systems life for each alternative design. Having long emphasized the need for sound front-end analysis, GAO supports Navy's efforts to improve the MPT planning process.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO believes the implementation authority for addressing weapons systems training needs is within the executive agencies. Identifying and planning for training

needs early in the acquisition process is feasible and is currently being attempted within the Navy through its HARDMAN system.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO believes significant savings are available if training requirements are recognized early in the planning and acquisition process. Although the GAO report (GAO/NSIAD-84-6) does not identify a specific dollar amount that could be saved, it does indicate that life cycle costs could be reduced. While GAO agrees with the PPSSCC that savings are attainable, we have no basis for estimating how much.

V. RELEVANT GAO REPORT

GAO/NSIAD-84-6	Comments on Navy's Manpower, Personnel, and Training Planning Process (October 7, 1983)

VI. GAO CONTACT

John Landicho 275-6504

NAVY 6: PROGRAM ACQUISITION STRATEGIES

I. PPSSCC ISSUE AND SAVINGS

"Can the Navy minimize weapons systems cost increases and production delays by having project managers formulate acquisition strategies that include projected cost and production schedules, and by grading them on their success at implementing those strategies? If project managers were required at the initial stage of an acquisition program to develop an acquisition strategy for approval by all offices that will approve subsequent implementing documents (e.g., Request for Authority to Negotiate, Determination and Findings), the Navy could achieve greater baseline stability in its acquisition programs, and provide a clear standard by which to judge the performance of project managers."

The PPSSCC did not identify any costs savings with this issue.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

According to the PPSSCC, project managers of most major Navy programs formulate acquisition plans or strategies setting forth in varying levels of detail a program for developing and producing their weapons system. Although the Naval Material Command (NAVMAT) approves these plans and strategies, they are often not approved at the Assistant Secretary of the Navy (ASN) level. ASN, instead, often approves these plans and strategies during subsequent program reviews. Additionally, various NAVMAT offices sometimes use subsequent review procedures to conduct overall program reviews, even though NAVMAT has already approved the plans and strategies implementing the program. These ASN and NAVMAT procedures introduce changes and delays in the middle of the Navy's acquisition programs.

To remedy this, the PPSSCC recommended that every weapons program which has been designated by the Navy as a major system acquisition have an acquisition strategy developed which sets forth comprehensively the manner in which the weapons systems will be developed and produced. Input and approval for these strategies should be obtained at the outset of the program from all offices that will approve or review the program's implementing documents.

Once these offices have approved a program's acquisition strategy, the PPSSCC recommendation would have them confine themselves during subsequent reviews to assuring that implementing decisions follow the previously approved strategy and to reviewing the reasons given for proposed

deviations from that strategy. Only where requirements for the weapons system have significantly changed should earlier decisions be reexamined.

GAO has not completed any work which addresses this specific issue and associated recommendation. GAO has, however, spent many years analyzing major weapon system acquisition programs and the associated cost growth and schedule slippage problems. Based on this work, GAO agrees with the general thrust of the PPSSCC's recommendation but believes that the recommendation would be difficult to implement in today's acquisition environment because program funding decisions required to support acquisition strategies are often adversely affected by yearly budgetary pressures and funding changes at all levels. Expected benefits from the PPSSCC recommendation will thus be limited to those programs having a strong and consistent military service commitment supported by sufficiently stable yearly funding to effect the planned acquisition strategy.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The Navy has the authority to implement the recommendation. However, the above discussed constraints will hinder effective implementation.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

None estimated by PPSSCC.

V. RELEVANT GAO REPORTS

None completed directly addressing this issue.

VI. GAO Contact

Paul Math 275-4587

OSD 18: INDEPENDENT RESEARCH AND DEVELOPMENT COSTS

I. PPSSCC ISSUE AND ESTIMATED SAVINGS

Independent Research and Development (IR&D) costs should be recoverable by defense contractors in the same manner as other bonafide overhead expenses. The burdensome regulatory process currently used should be eliminated.

The PPSSCC estimates that direct Department of Defense costs associated with administration of the IR&D program and indirect costs would be reduced by approximately $100 million in the first year and $331 million over 3 years.

II. GAO ANALYSIS OF ISSUE AND RECOMMENDATIONS

The system by which the Department of Defense reimburses contractors for IR&D and Bid and Proposal (B&P) costs allows such costs as part of the contractors' overhead expenses. However, DOD has adopted a ceiling procedure that limits the amount of IR&D and B&P costs that will be reimbursed to contractors through overhead. Amounts of IR&D and B&P expenses which a contractor elects to incur in excess of that ceiling may not be charged as overhead against government contracts. Contractors annually incur hundreds of millions of dollars in excess of those IR&D/B&P ceilings.

The PPSSCC characterizes the process by which DOD establishes these ceilings as burdensome and recommends that it be eliminated. The PPSSCC estimates that such action would reduce administration and indirect costs by $100 million in the first year and $331 million over 3 years. The PPSSCC argued that competition would effectively keep IR&D costs at constrained and reasonable levels.

GAO questions whether "competition" would effectively keep IR&D costs at the level currently represented by the ceilings negotiated annually pursuant to FAR 31.205-18 and 42.1007. GAO agrees that elimination of the regulatory process would reduce certain administrative costs, but GAO believes these savings could be more than offset by increases in overall program costs. As explained below, in fiscal years 1981 and 1982, contractor incurred IR&D and B&P costs consistently exceeded the negotiated ceilings by amounts that were greater than the estimated savings associated with implementing the PPSSCC recommendation.

The PPSSCC recommendation is silent on Bid & Proposal expenses. In the Federal Acquisition Regulations (FAR), IR&D and B&P are included in a common section (31.205-18) under contract cost principles and procedures. The ceiling which would be affected by the PPSSCC recommendation covers both IR&D and B&P and the costs may be combined under this single ceiling. GAO believes the regulations associated with IR&D should not be changed without also addressing B&P, since these two expenses may be combined under one common ceiling that is negotiated pursuant to FAR 42.1007.

III. ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

Implementation of this recommendation would require the modification or repeal of section 203, P.L. 91-441 which establishes some control of Independent Research and Development expenditures. Such repeal, however, could seriously degrade responsible management of IR&D and B&P expenditures by eliminating current controls which are designed to prevent duplication of research projects and limit expenditures to established ceilings.

IV. ANALYSIS OF SAVINGS ESTIMATE

GAO believes that this recommendation could increase the costs to the Government by millions of dollars annually. There are currently over 100 contractors with which DOD has negotiated IR&D/B&P ceilings. In 1981 the total of the ceilings for these contractors was approximately $3 billion. The total IR&D/B&P for these same contractors was $3.9 billion, representing $900 million over the negotiated ceilings. In 1982 the total of the ceilings for these contractors was $3.6 billion. The total IR&D/B&P cost for these same contractors was $4.5 billion, or $900 million over the negotiated ceilings. To remove the ceilings could increase the Government's expenditures substantially.

In addition, the administrative regulations which the PPSSCC's recommendation would eliminate include provisions for certain technical reviews. The regulations require the review of each IR&D project in a contractor's techical plan, and require the government to make an on-site inspection of the contractor's operation at least once every 3 years. Without the review of these technical plans and the triennial review of contractors' programs by a central body, GAO believes that there could be a substantial unnecessary duplication of contractor research and development efforts.

Elimination of DOD Directive 5100.66 and FAR 31.205-18 may reduce some administrative costs, but in GAO's opinion these savings would be more than offset by substantial increases in overall program costs.

V. LIST OF RELEVANT GAO REPORTS

None

VI. GAO CONTACT

Paul Math 275-4587

OSD 19: DEPARTMENT OF DEFENSE LABORATORIES

I. PPSSCC ISSUE AND SAVINGS

Should DOD intensify the data exchange between its in-house defense research laboratories and their parent military services to highlight emerging new technology? Should there be more effective coordination among these laboratories by OSD to eliminate duplication of projects and staff? Shall the labs be excluded from the later stages of the weapon development cycle? Is there a need to step up technology transfer from the Defense Advanced Research Projects Agency (DARPA)?

The PPSSCC estimates savings at $700 million annually and 3-year savings at $1,593.7 million through more effective integration of research data into the system acquisition process and through better coordination and limitation of laboratory research programs by OSD.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The in-house laboratories owned by the military services participate in the research and development process from Basic Research (6.1) through to procurement of new systems. They act as advisors to their parent military services to make them "smart buyers" of technology in new systems.

The PPSSCC has found that:

--At present only the early development phases--Basic Research (6.1) and Exploratory Development (6.2)--have visibility across all the services. The only centralized work is DARPA's high-risk advanced technology programs. The services, however, often view DARPA's work as competitive rather than complementary with its own.

--A centralized coordinated effort to disseminate technology data among the in-house laboratories and the services is needed to provide a better understanding of emerging technology for defense systems and to avoid unnecessary duplication of lab staff and projects.

--Some in-house laboratories continue their development projects through Engineering Development (6.4) although that phase of the work is more cost effectively conducted by the services themselves.

The PPSSCC recommended that:

--OSD should extend its monitoring of Basic and Exploratory Development to include Advanced Development (6.3) and Engineering Development (6.4), whether performed in-house or by contractors.

--DARPA should support only programs having very high risk or multiservice potential and transfer them in demonstration form to a "lead" service.

--The in-house laboratories should not usually do Engineering Development (6.4).

--The laboratories should serve as consultants on components and should support system standardization.

--Lab technology position papers should be readily available to DOD bidders and all military commands.

--Labs should be tasked with broad mission requirements rather than specific hardware needs.

--Communication and data exchange programs should be established between the labs, the combat forces they serve, and other services working on the same or related technologies.

--Lab managers should have more latitude to choose research and development projects.

GAO has not taken a position on all these recommendations, but some of the research and development problem areas have been identified by a number of studies of DOD research and technology management done by other distinguished observers in the recent past, such as a study sponsored by the Under Secretary of Defense (Research and Engineering) titled "USDR&E Independent Review of DOD Laboratories" (dated March 22, 1982).

GAO has found that the defense laboratories have been placed in a position of neglecting basic and applied research in favor of short-term problems. GAO has also criticized the state of data exchange among government research centers.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The recommendations can be implemented through executive action. However, given the persistent criticisms of laboratory administration and management, implementation of the PPSSCC recommendations will require resolute support and interest of top OSD executives and military service heads.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

Although GAO believes that substantial savings can be realized by eliminating such practices as unnecessary duplication in projects and staff, GAO cannot verify the dollar estimates of the PPSSCC.

V. RELEVANT GAO REPORTS

GAO/MASAD-81-5	Letter to the Secretary of Defense, The State of Basic Research in DOD Laboratories (February 19, 1981)
GAO/PSAD-80-8	Federal R&D Laboratories--Directors' Perspectives on Management (November 28,1979)
GAO/PSAD-79-62	Better Information Management Policies Needed: A Study of Scientific and Technical Bibliographic Services (August 6, 1979)
B-167034	Letter to the Secretary of Defense (March 14, 1974)

VI. GAO CONTACT

Paul Math 275-4587

OSD 39: GOVERNMENT-FURNISHED MATERIALS (GFM)

I. PPSSCC ISSUE AND SAVINGS

DOD should accelerate the implementation of DOD Instruction 4140.48, which requires control of access by maintenance contractors to DOD inventories and expand the instruction to cover production contractors. Furthermore, DOD should establish interim procedures to control Government-Furnished Material (GFM) until the instruction can be fully implemented.

Annual savings of $20 million to $60 million are possible by improving controls over GFM provided to contractors.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The need for accountability and control over material DOD provided to contractors has been documented in congressional hearings and in GAO and Military Service audit reports. The most recent GAO reports (GAO/PLRD-81-36 and GAO/FGMSD-80-67) were the subject of testimony on October 1, 1981, before the Subcommittee on Legislation and National Security, House Government Operations Committee. The hearings and reports were used by PPSSCC to support its position on the issue. Moreover, a February 1984 DOD Inspector General's report[1] indicates that the PPSSCC recommendations are valid and should be implemented.

GAO recommended in its 1980 report that the Secretary of Defense instruct the services to develop accounting systems that establish a means of determining the quantity and value of GFM (1) contractually allowed to contractors, (2) actually provided to contractors, (3) reported as received by contractors, (4) reported as used by contractors, and (5) reported as on hand by contractors. These systems should also include adequate accounting for GFM that is obtained by contractors directly from DOD supply systems. Further, GAO recommended that DOD identify production contracts which have significant amounts of GFM and determine whether such material is authorized and required.

These recommendations were based on findings that DOD had little accountability and control over its GFM. In addition, GAO found, as did PPSSCC, that improved management of GFM could save millions of dollars.

[1]Government-Furnished Material at DOD Production Contractors (No. 84-032).

PPSSCC made four specific recommendations relating to the need for stronger accountability and control over DOD's GFM. The recommendations are as follows:

--Expand and amend DOD Instruction 4140.48 to include GFM across all Government contractors, instead of only maintenance contractors.

--Establish a GFM project office within each of the services and DLA.

--Review existing criteria for exceptions to the general policy requiring contractors to furnish materials in order to execute Government contracts.

--Review contract specifications for GFM and, to the extent possible, define allowable quantities beyond which requisitions are determined to be excess or require exception approval.

GAO agrees with these recommendations. They are consistent with prior GAO recommendations and other reports examining DOD's management of the materials it provides to contractors.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, STATUS

DOD has the authority to implement PPSSCC's recommendations and GAO believes it is feasible to do so. However, on the basis of DOD's comments on the February 1984 DOD Inspector General's report, it appears that little has been done to implement the recommendations.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

Based on prior GAO work and the recent Inspector General report, GAO believes the savings estimates provided by PPSSCC are realistic. In February 1984, the Inspector General reported that significant problems still exist in DOD's accountability for an estimated $9.6 billion worth of GFM at contractors' plants. For example, the Inspector General reported that limited tests of only 15 of the contractors identified $24.8 million of excess GFM. These excesses resulted from DOD shipping more material to the contractors than required.

V. RELEVANT GAO REPORTS

TESTIMONY	Better Management and Accountability are Needed For Government Material Furnished to Defense Contractors, by Henry W. Connor, Procurement, Logistics, and Readiness Division, before the Subcommittee on Legislation and National Security, House Committee on Government Operations (October 1, 1981)
GAO/PLRD-81-36	The Navy Is Not Adequately Protecting the Government's Investment in Materials Furnished to Contractors for Ship Construction and Repair (June 9, 1981)
GAO/FGMSD-80-67	Weaknesses In Accounting For Government-Furnished Materials at Defense Contractors' Plants Lead to Excesses (August 7, 1980)

VI. GAO CONTACT

H. Connor 275-4141

PROC 6: WEAPONS ACQUISITION PLANNING

I. PPSSCC ISSUE AND SAVINGS

"How can the procurement process be improved through the timely development of more comprehensive Program Management Plans?"

"How can acquisition planning, including the choice of contract type and incentives, be enhanced to improve the acquisition process?"

A 3-year savings of $2,940 million was estimated by PPSSCC as a result of PPSSCC recommendations. The PPSSCC made this estimate by evaluating the observed performance of DOD and the services in the acquisition process compared with the performance of the private sector in the implementation of major capital investments for new facilities. The PPSSCC stated that this approach, though largely judgmental, has proved to be an effective tool and is used in the private sector for comparing and evaluating available alternatives.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

To improve major weapon systems procurement, the PPSSCC recommended that OSD and the services emphasize timely development of comprehensive Program Management and Acquisition Plans at the program level, including (1) expanding the scope of these plans and maintaining them as living/working documents, (2) using the plans as the basis for cost and schedule estimates, and (3) delegating authority to contract and manage programs on a decentralized basis in accordance with approved plans.

Although GAO's work has not focused directly on the specific areas cited by the PPSSCC, information developed during GAO's individual weapon system reviews generally supports the thrust of the PPSSCC recommendations and steps outlined by the PPSSCC to implement them. GAO, however, does not agree with one of the suggested ways to implement the recommendations. Specifically, establishing a program planning function in each "System" Command, as suggested by the PPSSCC to assist Program Managers, may duplicate existing DOD management structures.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC recommendations can be implemented within DOD's existing authority, given the necessary commitment and support at the Secretary of Defense level.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

Although GAO agrees that better weapons acquisition planning can result in significant dollar savings, GAO cannot verify PPSSCC's estimated dollar savings because of a lack of detailed information on the estimate.

V. RELEVANT GAO REPORTS

GAO/NSIAD-84-22	Joint Major System Acquisition by the Military Services: An Elusive Strategy (December 23, 1983)
GAO/NSIAD-83-7	Weapon System Overview: A Summary of Recent GAO Reports, Observations, and Recommendations on Major Weapon Systems (September 30, 1983)
GAO/MASAD-83-27	Better Planning and Management of Threat Simulators and Aerial Targets is Crucial to Effective Weapon Systems Performance (June 23, 1983)
GAO/PSAD-79-9	Observations on Office of Management and Budget Circular A-109--Major System Acquisitions by the Department of Defense (February 20, 1979)

VI. GAO CONTACT

Paul Math 275-4587

USAF 1: FINANCIAL REPORTING AND CONTROL

I. PPSSCC ISSUE AND SAVINGS

"Can modification of Air Force financial reporting and control processes prompt greater operating efficiency without diminishing military effectiveness?"

PPSSCC estimates that annual savings of at least $350.0 million and $1,158.5 million over 3 years are possible.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO agrees with PPSSCC that modification of Air Force financial reporting and control processes can prompt greater operating efficiency without diminishing military effectiveness. The problems PPSSCC discusses under this issue are, for the most part, endemic to federal budgeting and accounting in general, rather than being unique to the Air Force. GAO has for a long time advocated--and continues to advocate--policies and practices which address these problems.

Specific problems PPSSCC identified are (1) the use of the obligation basis of accounting for budget development, execution and control; (2) the absence of a system which relates expenses incurred to officials responsible for their incurrence; and, (3) budget presentations which do not provide the Congress with the information needed to make the most responsible decisions possible on allocations of public resources.

PPSSCC recommends that the focus of congressional appropriations should be shifted from an obligation basis to an accrued expenditure basis, and that 31 U.S.C. 3512(d), requiring agencies to use accrual accounting, should be implemented. On an obligation basis, economic events are measured when resources become obligated, e.g., when orders are placed and when contracts are awarded. On an accrued expenditure basis, expenditures are recorded when goods are received and services performed.

GAO continues to support and advocate the use of accrual accounting. GAO, believes, however, that the focus should be on costs rather than accrued expenditures. Costs are a measure of resources consumed. GAO believes this is the most appropriate and reliable basis for evaluation of program effectiveness and management performance.

Focusing on accrued expenditures in lieu of obligations would however be a significant step forward toward focusing ultimately on costs. Accrual accounting is a

necessary feature of accounting systems for measuring either accrued expenditures or costs. For these reasons GAO agrees with PPSSCC that the focus should be shifted to an accrued expenditure basis, and that the requirement for accrual accounting should be enforced.

PPSSCC believes that, in the Air Force, the basic responsibility accounting entity is the organizational unit and recommends that funds be budgeted and accounted for at that level. GAO agrees but believes additionally that in the Department of Defense, including the Air Force, funds should be budgeted and accounted for at the project and program levels, thus providing a basis for responsibility accounting at these levels as well.

PPSSCC recommends that the Air Force's operating expenses--as distinct from investment outlays--be aggregated in one appropriation. PPSSCC believes, and GAO agrees, that it is important for the Congress to be aware of operating expenses in the aggregate. GAO does not believe it is necessary, however, to change the appropriation structure to achieve this purpose. An alternative solution would be to submit budget presentations which include, or are supported by, information which shows Air Force operating expenses in the aggregate.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

Implementation of high quality financial reporting and control processes, for the Air Force and for the government as a whole, is fully feasible within the existing framework of authority. Improvements will require commitment by the central management and operating agencies as well as major changes in present budgeting and accounting systems.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

PPSSCC's savings estimate does not appear to have any valid statistical basis. PPSSCC applied a factor of one percent to the Air Force's budgeted annual operating expenses (at the time of the study) to arrive at the $350 million annual savings estimate. The estimate of $1,158.5 million savings over 3 years was developed by applying a 10 percent inflation factor to the $350 million estimate of annual savings. There is no practical way, that GAO knows of, to reliably estimate the savings effect of high-quality financial reporting and control processes in the Air Force or in the government as a whole. However, GAO believes that such processes are essential to efficient and economical operation and that the potential savings are significant and material.

V. RELEVANT GAO REPORTS

GAO/AFMD-85-9	Progress In Improving Budget Information For Congressional Use (Oct. 12, 1984)
GAO/AFMD-84-43 & 43A	Managing The Cost Of Government--Building An Effective Financial Management Structure (Draft - for discussion only, March 1984)
GAO/PLRD-82-62	Defense Budget Increases: How Well Are They Planned And Spent? (April 13, 1982)
Title 2 of the GAO Policy and Procedures Manual For Guidance of Federal Agencies	Accounting Principles And Standards For Federal Agencies

VI. GAO CONTACT

Virginia Robinson 275-9513

USAF 18: SMALL BUSINESS ACT - SECTION 8(a)

I. PPSSCC ISSUE AND SAVINGS

Section 8(a) of the Small Business Act should be amended. PPSSCC estimates that amendment will generate "$23 million annual savings to the Air Force or $76.1 million over three years."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The Small Business Administration's (SBA) 8(a) program provides noncompetitive government contracts to socially and economically disadvantaged firms to encourage business development. Using its authority under section 8(a), SBA contracts with government agencies and then subcontracts the work to certified 8(a) firms. Participating 8(a) firms are expected to graduate from the program after achieving a competitive position in the open marketplace.

GAO's 1982 report evaluating the impact of the 8(a) program on the Department of Defense--the program's largest participant--concluded that the 8(a) program can result in higher contract prices, lost progress payments, unproductive use of supply center procurement funds, supply shortages, and/or extensive administrative efforts. GAO found that procurement activities took steps to minimize some of the negative impacts from the 8(a) program by (1) screening the requirements offered under the 8(a) program to ensure that contracts for producing entire quantities of high priority items would not be awarded solely to 8(a) firms, (2) borrowing items in short supply from other activities, and (3) making emergency buys to replenish supply.

PPSSCC makes three recommendations for improving the 8(a) procurement program.

USAF 18-1, which would make the procurement agency responsible for administering the entire contract process, resembles the direct contracting option identified by GAO. Such an approach has the advantage of (1) maintaining the integrity of the relationship between buyer and seller, (2) translating to the 8(a) firm that it is accountable for its performance, and (3) permitting timely resolution of contracting problems.

USAF 18-2, which would introduce the competitive bidding process missing from the present 8(a) program, differs from GAO's competitive option by limiting the field of competition to 8(a) firms alone. Under GAO's option, 8(a) firms would compete with other businesses for procurements. However, offers from 8(a) firms would

receive priority for award. Given certain ground rules, SBA would be responsible for paying the procurement agency any difference between the competitive fair market price and the 8(a) firms' price. While GAO's proposal offers greater cost visibility, PPSSCC's recommendation is an improvement over the strictly sole source procurements now made and is similar to another GAO proposal to introduce competition among 8(a) firms that have entered a "second tier" of the 8(a) program (i.e., firms that have achieved a degree of competitiveness).

USAF 18-3 states that "graduation from the 8(a) program should be a statutory requirement, rather than a regulatory matter." GAO supports the need for better graduation criteria but has not addressed whether a statutory change is needed. In (GAO/CED-81-55), GAO recommended that the SBA Administrator "remove inappropriate 8(a) firms by assuring that the graduation criteria being developed is aggressively implemented and termination requirements set forth in SBA's procedures are followed."

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

All three recommendations require legislative change. Such action will require the support of the Small Business Committees, which have jurisdiction over matters affecting 8(a) firms.

IV. GAO ANALYSIS OF SAVINGS ESTIMATES

According to PPSSCC, improvements in section 8(a) contract awards and administration will generate an estimated $23 million in annual savings to the Air Force alone. Similar percentage savings are available to the Army, the Navy, the General Services Administration, and other federal agencies. This multiplier effect could increase savings beyond $300 million. PPSSCC did not provide sufficient data to enable us to verify the validity of its estimates. However, GAO has previously stated that introducing competition can result in savings and other benefits.

V. RELEVANT GAO REPORTS

GAO/PLRD-83-4	Proposals for Minimizing the Impact of the 8(a) Program on Defense Procurement (Oct. 12, 1982)
GAO/CED-81-55	The SBA 8(a) Procurement Program--A Promise Unfulfilled (Apr. 8, 1981)

VI. GAO CONTACT

H. Connor 275-4141

NAVY 7: WEAPON SYSTEM ACQUISITION AND INTEGRATED LOGISTICS SUPPORT

I. PPSSCC ISSUE AND SAVINGS

Navy Issue 7 addresses two interrelated questions. First, can the Navy increase the efficiency of the weapon system acquisition process by transitioning management of programs from technical/engineering managers to business and financial managers as weapons acquisition programs mature? Second, can the Navy increase life cycle weapon system support and readiness of integrated logistics support (ILS) management if systems acquisition is placed under the direction of personnel who will ultimately be responsible for the logistical support of the weapon systems in the fleet?

PPSSCC did not identify quantifiable savings in its presentation of this issue. Anticipated benefits were cited as (1) improved management of Navy acquisition programs, (2) better utilization of scarce engineering and operational talent in all aspects of systems acquisition, and (3) smoother introduction of new systems in the fleet.

II. GAO ANALYSIS OF ISSUE AND SAVINGS

In considering this issue, PPSSCC recognized the need for more effective career development of ILS personnel and for strengthening the ILS process during the weapon system acquisition process. In previous reviews of weapon system acquisition programs, GAO has identified deficiencies which were traced to the need for greater emphasis on logistics considerations during the systems acquisition process. Thus, GAO agrees in principle with the concepts addressed in the issue and believes that actions on the part of the Navy (and the other military services) to improve ILS planning and implementation will increase life cycle weapon system support and system readiness. However, GAO does not believe that implementation of the first PPSSCC recommendation associated with this issue--regarding the assignment of ILS managers--is practicable, and GAO disagrees with the second recommendation regarding the selection of Supply Corps Officers as program managers. GAO concurs with the third recommendation regarding the need for improved career development training.

GAO is concerned that while PPSSCC stated that the objective of this issue was to improve integrated logistics support management in the Navy, the report recommendations addressed only the Navy's supply community. Supply is only one aspect of ILS. The report stated that skills in business and contracting are more important than technical engineering skills in the

management of a weapons program when the system has transitioned from development to production. GAO believes that this conclusion does not give adequate recognition to the fact that technical and engineering skills are critical to the effective performance of an ILS manager. Principles of maintenance, configuration control, reliability, maintainability and supportability, and other aspects of logistics management should be based on sound technical and engineering analysis.

GAO concurs in concept with PPSSCC's recommendation 7.1 that the Chief of Naval Material take steps to ensure that "assigned project integrated logistics managers are officers who will ultimately be responsible for support of the systems in the Fleet and to the Fleet." In its 1981 report entitled "Effectiveness of U.S. Forces Can Be Increased Through Improved Weapon System Design" (GAO/PSAD-81-17), GAO stated that many weapon systems cannot be adequately operated, maintained, or supported because of inadequate attention to various "ownership considerations" during weapon system design. GAO believes that assigning adequately trained multiskilled logisticians to ILS program management positions will foster improved supportability and readiness in the design of future weapon systems.

Recommendation 7.1 suggests that ILS project managers should be Navy officers. While GAO agrees with the concept behind this recommendation--to bring a users viewpoint to ILS planning--it questions whether or not the implementation would be feasible. First, many ILS program management positions (including that of the ILS manager) are staffed by Navy civilians. This is part of the Navy's career enhancement program for development and career progression of civilian logisticians and acquisition managers. Second, there are many Navy programs that do not have full-time ILS managers because there are not enough trained civilians or personnel slots to accomodate them. It is even more unlikely that qualified military officers could be made available to fill these positions. GAO does agree, however, that appointing qualified Navy officers to ILS manager positions in key programs would offer many benefits and should be considered when practicable.

GAO does not concur in PPSSCC recommendation 7.2 that Supply Corps officers be selected as program managers when ILS concerns are the predominant factors in the systems acquisition program. GAO does not believe that Supply Corps officers should receive more favorable consideration as program managers than qualified officers from other career fields who are involved in other aspects of logistics.

Another factor which should be considered in an analysis of the merits of recommendation 7.2 is that few acquisition programs involve supply support as the predominant program management consideration. From early production through most phases of system operation, many engineering and technically complex tasks must be accomplished such as evaluating engineering change proposals and system modifications, managing maintenance and overhaul programs, defining technical data requirements, and providing technical input to the design process for defining future systems requirements. Since program manager responsibilities include these and other technical and engineering oriented tasks, the traditional education and training requirements for Supply Corps officers may not be any more desirable than the education and training received by officers in other fields. In summary, GAO does not believe that implementing this recommendation would result in achieving desired improvements in the Navy weapon system acquisition process.

GAO concurs in the PPSSCC task force report recommendation 7.3 that the Navy develop an Integrated Logistics Support Career Development Program for Supply Corps officers. GAO has previously commented in several reports that more effective career development is an important factor in improving military capability in general. Development and implementation of the training program recommended by PPSSCC should enhance the Navy's weapon system acquisition and logistics support operations.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

As discussed in the previous section, there are aspects of these recommendations (all of which could be implemented by executive action) which may not be feasible, particularly recommendations 7.1 and 7.2.

The Navy has initiated action to implement recommendation 7.3. In fiscal year 1985, a prototype ILS Career Development Program is to be initiated to formally start preparing Naval Supply Corps officers for integrated logistics support management positions. Four officer billets (positions or slots) will be used in fiscal year 1985, and the Navy had plans to expand to a 30 billet intern program in fiscal year 1986. However, funding for this program was not included in the final version of the President's 1986 budget.

While GAO believes this program is a positive step toward improving weapon system acquisition management in the Navy, other Navy career development programs may have as much potential for accomplishing the objective envisioned by PPSSCC. For example, the Assistant Secretary of

the Navy (Manpower and Reserve Affairs) and the Chief of Naval Personnel have announced plans to reorganize the Navy's Weapon System Acquistion Management Career Field. Additionally, revisions to the career management of civilian acquisition management specialists have also been undertaken. GAO believes that in developing plans for these and similar programs, the Navy should ensure that adequate emphasis is placed on ILS facets of the weapons acquisition process.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

There were no quantifiable savings identified for Navy Issue 7 in the PPSSCC report.

V. RELEVANT GAO REPORTS

GAO/LCD-80-65	Operational and Support Costs of the Navy's FA-18 Can Be Substantially Reduced (June 6, 1980)
GAO/LCD-79-415	Alternatives to Consider in Planning Integrated Logistics Support for the Trident Submarine (September 28, 1979)
GAO/PSAD-81-17	Effectiveness of U.S. Forces Can Be Increased Through Improved Weapon System Design (January 29, 1981)

VI. GAO CONTACT

H. Connor 275-4141

PROC 9: PROGRAM MANAGEMENT

I. PPSSCC ISSUE AND SAVINGS

"What can be done to enhance the role, responsibility, authority, and accountability of the Program Manager (PM) and improve the efficiency/effectiveness of program management?"

PPSSCC estimated that improvement of the PM role could result in a 3-year cost savings of $980 million.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

DOD Directive 5000.1, covering Major System Acquisitions, establishes the basis for weapon systems acquisition programs, including management principles/ objectives and fundamental responsibilities of line authority from the level of OSD through the assigned PM. Within DOD, the three services (Air Force, Army, and Navy) are responsible for administering the acquisition programs. Further, within the services, the organizations most directly involved are the various "Systems" Commands and "Commodity" Commands.

The services and their responsible subordinate Commands augment DOD Directive 5000.1 by publishing acquisition regulations and guidelines covering program management and the role of the PM. These publications generally establish the services' program management concepts, responsibilities, policies, and procedures to be implemented by the assigned PM.

In general, the PM is an individual who has overall responsibility for, and is the advocate of, the acquisition program to which he/she is assigned. In the case of a major weapons system, the PM has a great deal of responsibility for a wide range of political, technical, business, administrative, and management matters. The success of the program depends, in large part, on the PM's authority matching his/her responsibility, adequate resources being made available for the team, strong functional unit support, and the ability to lead and orchestrate the total effort.

PPSSCC found that:

--The Systems Commands' responsibility for program results and PM activities is not always apparent. Further, these Commands do not appear to fully underwrite PM and program performance.

- The PM's responsibility, authority, and accountability are often a mismatch given the way the system actually works.

- Multi-layered staff and management briefings coupled with numerous requests and inquiries divert the PM's attention from managing the program. Instead of the Systems Commands shielding the PM from these non-productive activities, the various service staffs contribute significantly to them.

- Program management career paths are limited and do not generate enough experienced people.

- There is a perceived difficulty in using outside management support services.

- The system does not facilitate program success to the extent it should and depends upon strong, aggressive, and innovative PMs to move programs ahead.

- Concern with future investigations leads to defensive management and a reluctance to delegate.

To deal with these problems, PPSSCC recommended that OSD and the services

- fully integrate the program management organization in each service to actively support and underwrite the effectiveness of PMs and strengthen discipline and delegation of authority in the acquisition process, and

- establish positive career paths leading to flag rank in each program management skill area for personnel in the services and the civil service; increase the use of technically trained people in all program management skill areas; and consider greater use of outside resources, when needed, to complement resources and skills available in the services in program management skill areas.

GAO believes these issues are longstanding and the services have been unable to deal with them effectively. In theory, the PM is chartered with a great deal of authority and responsibility. However, in practice the Congress, OSD, the services, and Systems Commands have not usually given the PM the latitude to run the program.

While GAO agrees with the PPSSCC thoughts on integration of the program office and Systems Command and clearly sees the need for its support, higher levels cannot be expected to relinquish their decisionmaking authority

easily. Some balance must be found which gives the PM authority and responsibility for program decisions. Higher authority should review these decisions based on a broader perspective.

Because experienced and well qualified PMs are critical, GAO supports PPSSCC's recommendation to establish a positive career path in program management. An ongoing GAO study in this area strongly supports the recommendation and suggests further that reserving flag positions would help to provide the incentives necessary to attract high quality managers to this field.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The recommendation to integrate the program office and Systems Command and strengthen delegation of authority can be accomplished by executive action and appears to fit well with the current Administration's philosophy of decentralization.

As far as a positive career path in program management is concerned, such a program could be instituted by executive action. However, congressional action may be desirable to provide additional support. In any event, there are several barriers to effective implementation. Of these, the military's traditional emphasis on its operational career fields is perhaps the most significant. The military culture would have to change and provide incentives for officers as well as civilians to commit to program management as a career.

At the conclusion of its current study, GAO expects to make a series of recommendations in this area.

IV. ANALYSIS OF SAVINGS ESTIMATE

GAO has no basis for estimating savings in this area. Further, GAO could not evaluate the PPSSCC estimate due to a lack of quantitative information.

V. RELEVANT GAO REPORTS

None. An ongoing GAO study will be completed in 1985.

VI. GAO CONTACT

Paul Math 275-4587

ARMY 10: MAJOR WEAPONS SYSTEMS ACQUISITION

I. PPSSCC ISSUE AND SAVINGS

"Can the Army more effectively manage the development and acquisition of major weapons systems?"

Beginning with a savings of $342 million in the first year, PPSSCC estimates $2.6 billion could be saved during the first 3 years of partial implementation with $1.6 billion in estimated annual savings following full implementation of the recommendations.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO generally agrees that the Army can more effectively manage the development and acquisition of major weapons systems. GAO believes that some of the PPSSCC recommendations addressing this issue have merit. However, we do not agree with all of the recommendations.

The PPSSCC recommends the Army adopt regulations that promote a tailored acquisition approach. The PPSSCC views tailoring of the acquisition process as modifying and streamlining the process to recognize the individuality of programs. GAO also recognizes the importance of flexibility in developing an acquisition strategy and agrees with OMB Circular A-109, which states that major systems acquisitions should employ a tailored acquisition strategy, encompassing test and evaluation criteria and business management considerations and that the strategy should be refined throughout development. In a 1982 report on the impact of OMB Circular A-109 on weapon system acquisitions, GAO stated that DOD should affirm its commitment to A-109, particularly to the flexibility inherent in the directive.

Thus, GAO would endorse the tailored acquisition approach in certain situations. For example, the Multiple Launch Rocket System (MLRS) program met its cost and schedule goals, and the program progressed satisfactorily. GAO agreed that, in this case, the acquisition strategy, referred to as a tailored acquisition strategy by the PPSSCC, was a success. However, GAO notes its concern with the PPSSCC statement that the Division Air Defense Gun (DIVAD) program testifies to the effectiveness of the Army Regulation (AR) 70-1 provisions for tailored acquisitions because the acquisition of the DIVAD has encountered problems. DIVAD did not demonstrate that it could meet performance expectations. Limited government testing was part of the DIVAD's tailored acquisition strategy, and we believe this limited testing has been partly responsible for the problems DIVAD has experienced.

The Selected Acquisition Reports (SARs) are documents DOD sends to the Congress to provide a status report of weapon systems' cost, schedule, and technical performance. As part of their cost information the SARs show a baseline cost estimate--usually the estimate associated with the Milestone II decision point--and track cost changes from that baseline. The cost changes are allocated to seven variance catagories. The PPSSCC recommends the structure of the SARs be revised to preclude unrealistic baseline estimation. However, GAO believes that any rebaselining of a major weapon system should not be done unless a clear track of the cost history of the program is maintained.

The PPSSCC recommends the Army recruit high quality personnel from the Army, other services, and industry to staff program offices as soon as a new weapon system is emerging. The PPSSCC points out that it is unlikely that there are sufficient people with adequate skills within DOD and it may be necessary to recruit more people from industry. GAO agrees it is important to recruit the highest quality staff possible. GAO notes, however, DOD has experienced losses of high quality people to higher paying positions in private industry. Therefore, there appears to be a question as to whether DOD will be able to attract sufficient high quality people to staff all the offices.

The PPSSCC would place more emphasis on producibility--the practice of making the initial design of a weapon system as easy to produce as possible--by allocating 5 to 10 percent of the positions on any design team (in every case at least one person) to personnel skilled in production start-up techniques. Clearly, it is desirable to have enough people skilled in producibility and production start-up techniques in each program office to adequately accomplish production-related tasks. However, the number of such people required would vary from program to program. Establishing an arbitrary percentage or number of people to focus on producibility for all programs may not result in the best allocation of human resources. Based on GAO's review of the transition to production process on the Black Hawk helicopter program, one person addressing producibility in the program office is not enough. The more difficult question is how many people are enough, which cannot be equitably answered by a set percentage.

The PPSSCC recommendation to include the producibility of proposed designs in the measurement of a Program Manager's performance, and establish a technique for evaluating the effectiveness of producibility engineering, appears desirable but would be difficult to implement properly. The Program Manager with the most influence on producibility is the Program Manager assigned to the

program during its early phase. Increasing the tour length of the Program Manager may permit the implementation of this recommendation in some cases.

The PPSSCC recommends reorganizing the Materiel Development and Readiness Command (DARCOM) Headquarters to separate its procurement and production functions. Once separated, the PPSSCC states, the numbers and expertise of production engineers in the new production offices should be raised. Presumably, this will improve the Army's ability to address weapon system producibility issues. GAO believes a more effective strategy for approaching producibility problems would focus on the lack of production engineers in the Army's program offices rather than at DARCOM. Reorganizing DARCOM would not appear to address this problem and therefore GAO disagrees with this particular recommendation. (Note: DARCOM is now the Army Materiel Command.)

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

It appears that the PPSSCC recommendations associated with this issue can all be implemented through executive action. Some of the PPSSCC recommendations appear easy to implement while others appear more difficult. The recommendations regarding an emphasis on producibility and implementing AR 70-1 appear relatively easy to implement because they would require the Army to put more emphasis on a particular policy.

The recommendation regarding including producibility of proposed designs in the measurement of a Program Manager's performance appears more difficult. The Program Manager most responsible for producibility is usually transferred out of the program office before the effects of his decisions are felt.

The PPSSCC recommendation regarding recruitment of high quality personnel would be possible to implement only if the proper conditions prevailed. The recruitment of high quality personnel to staff program offices would be possible if there were sufficient high quality people and DOD could afford the salaries necessary to attract them from industry or other government agencies.

IV. ANALYSIS OF SAVINGS ESTIMATES

The PPSSCC claims the savings from this issue would be $2,611.7 million for the first 3 years of implementation with $2,124 million in the fourth year. The PPSSCC

expects $3,494 million of the 4-year savings to come from improved cost estimating; $663 million of these savings to result from a reduction in requirements changes; and the remainder to come from a more effective focus on the activities of DARCOM's Procurement and Production Directorate and the Program Manager's Procurement and Production Division. However, the PPSSCC points out that improved cost estimating will not result in real savings unless the scope of some programs is reduced. The PPSSCC also points out that some of the higher estimates would be accepted and planned for in the budget process.

GAO agrees that cost estimating is not necessarily a source of cost growth--making the estimates accurate would not, by itself, reduce cost. The higher costs would simply be reported earlier. Some cost savings may be realized if decisionmakers were able to determine, based on accurate cost estimates, the most efficient production schedule for a weapon system and were able to buy the system in the most economic manner.

The PPSSCC did not provide adequate information for GAO to determine the validity of the savings attributed to the reduction in requirements changes or the reorganization of DARCOM.

V. RELEVANT GAO REPORTS

GAO/NSIAD-84-70	DOD Needs to Provide More Credible Weapon Systems Cost Estimates to the Congress (May 24, 1984)
GAO/MASAD-83-8	The Army Should Confirm Sergeant York Air Defense Gun's Reliability and Maintainability Before Exercising Next Production Option (January 27, 1983)
GAO/MASAD-82-13	The Army's Multiple Launch Rocket System is Progressing Well and Merits Continued Support (February 5, 1982)
GAO/PSAD-80-37	"SARs"-Defense Department Reports That Should Provide More Information to the Congress (May 9, 1980)

VI. GAO CONTACT

Paul Math 275-4587

ARMY 11: MAJOR WEAPONS SYSTEMS PROCUREMENT STABILITY

I. PPSSCC ISSUE AND ESTIMATED SAVINGS

"Can increases in costs for major weapons systems acquisition be reduced by creating a biennial budget?"

"Stabilization of production rates would generate, when fully implemented, cost avoidance and efficiences that will save at least $2.0 billion each year or $6.62 billion over 3 years including inflation."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The five recommendations in this issue go far beyond the question of creating a biennial budget in DOD and would seek to stabilize production costs by requiring changes in Selected Acquisition Reports (SARs), changes in baseline cost estimates, and revisions in reprogramming guidelines as well as a comprehensive study of production stretch outs. As discussed below, GAO agrees that recommendation ARMY 11-3 has merit but does not fully agree with the other PPSSCC's recommendations proposed within ARMY 11.

PPSSCC ARMY 11-1 "recommends that a fully funded biennial budget be instituted for major weapon system procurement. Budgeting for the procurement of major weapons systems at 2-year intervals will allow more time to develop comprehensive program alternatives, and will alleviate the conflict caused by planning future budgets, while justifying current budget requests. Program decisions would be in effect for a 2-year period, and as such, would not be subject to the annual compromises that accommodate funds for emerging programs."

At this time GAO does not recommend adopting a biennial budget cycle. While GAO supports efforts to alleviate problems of planning and budgeting for major weapon systems, financial management problems go well beyond the question of biennial budgeting.

GAO believes it is time to reexamine the entire financial management system of the federal government. There is a need to develop systems and procedures which are more effectively integrated and less time-consuming and which eliminate excessive detail and repetitious decisionmaking for the executive agencies and Congress.

With appropriate systems and procedures, GAO believes the workload associated with the annual budget process can be brought within manageable proportions. These improvements will substantially reduce the need to shift to a biennial budget across the board. Moreover, the results

could be disappointing if biennial budgeting were adopted without the needed improvements in the rest of the financial management structure.

PPSSCC ARMY 11-2 "recommends that the SARs be reformatted to provide program price information that has been adjusted to factor out the effects of inflation and quantity change. It further recommends that in the event a system undergoes a major configuration change, a new baseline be established by mutual consent of DOD and the Congress."

GAO does not agree that ARMY 11-2 has merit. With respect to reformatting the SARs, the changes recommended are not needed because the SARs already report the impact of inflation and changes in quantity.

GAO's agreement with the second part of this PPSSCC recommendation hinges largely on what constitutes a "major configuration change." If a truly major change occurs, i.e., the program is essentially revamped, GAO agrees a new baseline should be established. GAO also believes the new program should be rejustified to the Congress.

If changes occur that are not major configuration changes, i.e., the program remains as originally justified even though the estimated cost could increase significantly, GAO does not believe the baseline should be changed. GAO believes DOD should maintain historical baselines to establish a clear track of the cost of acquisition programs from their initial estimates. This history could be lost if rebaselining occurs.

PPSSCC ARMY 11-3 "recommends that an audit trail be established from the updated baseline cost estimate to the succeeding budget projection. If trade-offs have to be made in translating the cost estimate to the budget projection, they should be able to be documented. The first budget projection made after the recommended baseline cost estimate revision could then be used as the basis for assessing unit cost growth. The Army and DOD should then be accountable for this growth, in accordance with the 'Nunn-McCurdy Amendment' guidelines." (P.L. 97-252, Sec. 1107, Sept. 8, 1982)

"Thresholds, similar to those stipulated by the 'Nunn-McCurdy Amendment' for reporting projected unit-cost increases, should be instituted to report actual unit-cost increases. This would ensure timely and accurate information concerning actual cost increases."

GAO and PPSSCC agree that DOD should maintain an audit trail between cost estimates and the budget projections for major acquisition programs. GAO believes a clear cost trail requires that services (1) compute a detailed baseline cost estimate based on actual cost experience and tied to a clearly defined work breakdown structure to support the production decision, (2) fully document all estimates and maintain documentation in a clear, traceable form, and (3) use the detailed baseline cost estimate to formulate succeeding budget projections. The cost estimate that supported the production decision can then be used as a basis for identifying areas of cost growth that occur during the production phase. GAO believes, however, that overall program cost growth should be tracked from the cost estimate prepared when the program was originally justified. In summary, GAO believes the recommendation has merit.

PPSSCC ARMY 11-4 "recommends that the guidelines for reprogramming monies authorized and appropriated by Congress for lower priority projects be revised. Full funding of essential systems is the objective of this recommendation. When budget pressures create funding levels that do not allow planned unit production schedules to be maintained, the Army should be allowed to cancel or reduce less essential acquisition programs and use the funds to protect essential system procurement."

GAO has reported that the Army should fully fund those new weapons systems deemed essential to bringing its most important missions up to the desired capability, even at the expense of cancelling or reducing other acquisition programs. To meet this objective, GAO believes that trade-offs between programs must be made to insure full funding of essential programs.

The PPSSCC recommendation, ARMY 11-4, however, would appear to give the Army flexibility to disregard or alter congressional funding decisions without justifying the merits of the reprogramming action. If the Army sees the need for reprogramming after the budget is approved, GAO believes the justification for this action should also be reported to the Congress.

Thus, GAO does not agree that the recommendation as stated has merit.

PPSSCC ARMY 11-5 "recommends a complete analysis of the impact of "stretching" production to understand how it affects cost increases. Most major weapon systems have started or will start full-scale production in the 1980s. Careful prioritization may save billions of dollars between now and 1990."

GAO agrees that this recommendation has merit and believes that the causes as well as the impact of stretching production should be analyzed.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO believes ARMY 11-1, calling for a biennial budget, would require both executive and legislative action. Four biennial budgeting bills were introduced in the 98th Congress (H.R. 750, S.12, S.20, and S.922), but none were specific to DOD or weapons systems procurement. ARMY 11-2 and ARMY 11-5 require executive action only. ARMY 11-3 requires executive action, but a legislative change may be necessary if the concept of the "Nunn-McCurdy Amendment" is to be applied to the audit trail. ARMY 11-4 requires executive action and could possibly require legislation depending upon the particular reprogramming action being requested.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO has no basis for determining if the PPSSCC 3 years savings potential of $6.62 billion is realistic.

V. LIST OF RELEVANT GAO REPORTS AND RELATED DOCUMENTS

GAO/17CCPAD83	Letter report to the Honorable Jack Brooks, Chairman, Committee on Government Operations, House of Representatives (Sept. 21, 1983)
GAO/MASAD-82-5	Budgetary Pressure Created by the Army's Plans to Procure New Major Weapon Systems Are Just Beginning (Oct. 20, 1981)
GAO/MASAD-81-7	Recommendations to Improve Defense Reporting on Weapon Systems (Mar. 2, 1981)
GAO/PSAD-80-37	SARs - Defense Department Reports That Should Provide More Information to the Congress (May 9, 1980)

VI. GAO CONTACT

C. William Moore 275-8412

NAVY 1: PROGRAM STABILITY AND ECONOMIC PRODUCTION RATES

I. PPSSCC ISSUE AND ESTIMATED SAVINGS

"Are weapons systems being procured at optimum production rates to the maximum extent feasible in view of the inherently destabilizing effects of current programming, budgeting and management processes? Corrective actions would result in an opportunity to realize savings between $500 million and $1 billion annually."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO agrees that procuring Navy weapons systems at less than optimum production rates increases program costs. In addressing this issue, the PPSSCC made four recommendations, discussed below. Although all have merit, GAO does not fully agree with NAVY 1-2 and 1-4.

PPSSCC recommendation Navy 1-1 states that the Navy should "establish the objective of restricting, with identified exceptions, the number of programs in production to those which it has the ability to fund at, or close to, economic production rates."

GAO has reported that the Navy should procure weapon systems under contracts providing for optimum production rates whenever possible. GAO has studied many factors that deter program stability and increase the cost of purchasing weapon systems. Overprogramming is a factor that reduces available funds to individual programs and impedes economic procurement of weapon systems, and thereby can adversely impact fleet capability. GAO has recommended that trade-offs must be made to fully fund essential new weapon systems. However, in a limited funding environment, decisions on trade-offs between programs can only be made if there is agreement on program priorities.

GAO believes this recommendation has merit to the extent that priorities are established that identify essential systems.

PPSSCC recommendation Navy 1-2 states that the Navy should "make every effort to gain approval of OSD, the Office of Management and Budget (OMB) and Congress to fund a management reserve of 5-10 percent of total major weapons systems dollars in order to have the required flexibility to effectively deal with unforeseen fiscal emergencies and thereby reduce the need for program stretch-outs."

GAO agrees in part that adequately budgeting for unforeseen fiscal emergencies can help to reduce program stretch-outs, and, in fact, Congress currently provides management reserves for certain weapon systems. The PPSSCC recommendation implies that a blanket reserve for the Navy should be established to support the acquisition of all weapon systems. GAO believes that contingency funds should be justified and approved system by system, based on the degree of risk or uncertainty inherent in each program.

GAO believes this recommendation has merit if reserves are established for individual programs and are approved cautiously to ensure that requests are fully justified.

PPSSCC recommendation Navy 1-3 states that the Navy should "work with the other Services to convince OSD of the need to stabilize the entire PPBS process through such actions as issuing consistent and firm defense and fiscal guidance at the outset of the annual cycle as well as bringing together the programming and budgeting phases."

GAO agrees that DOD's planning, programming, and budgeting process needs improvement. In this regard, GAO recognizes the need for DOD planners and policymakers to issue guidance that is timely and consistent with the general direction and priorities of the Administration. GAO also agrees that the PPSSCC recommendation calling for a stablized PPBS process has merit.

PPSSCC recommendation NAVY 1-4 states that the Navy should "work with the other Services, OSD and OMB to gain administration support for a 2-year congressional budget--at least for major weapons systems programs."

At this time GAO does not recommend adopting a biennial budget cycle. While GAO supports efforts to alleviate problems of planning and budgeting for major weapon systems, financial management problems go well beyond the question of biennial budgeting.

GAO believes it is time to reexamine the entire financial management system of the federal government. There is a need to develop systems and procedures which are more effectively integrated and less time consuming and which eliminate excessive detail and repetitious decisionmaking for the executive agencies and Congress.

With appropriate systems and procedures, GAO believes the workload associated with the annual budget process can be brought within manageable proportions. These improvements could substantially reduce the need to shift to a biennial budget across the board. Moreover, the results

could be disappointing if biennial budgeting was adopted without the needed improvements in the rest of the financial management structure.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO believes DOD has the authority to initiate action for implementing NAVY recommendations 1-1 and 1-3. NAVY 1-2 and 1-4, however, would require both executive and legislative action. With respect to 1-4, we noted that four biennial budgeting bills were introduced in the 98th Congress (H.R. 750, S.12, S.20, and S.922), but none were specific to DOD or weapon systems procurement.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO has insufficient data to determine if the PPSSCC's savings estimated between $500 million and $1 billion annually for this issue is realistic.

V. RELEVANT GAO REPORTS

GAO/17CCPAD83	Letter report to the Honorable Jack Brooks, Chairman, Committee on Government Operations, House of Representatives (Sept. 21, 1983)
GAO/PLRD-83-62	The Defense Budget: A Look A Budgetary Resources, Accomplishments, and Problems (April 27, 1983)
GAO/PLRD-82-62	Defense Budget Increases: How Well Are They Planned and Spent? (April 13, 1982)

VI. GAO CONTACT

C. William Moore 275-8412

OSD 17: REGULATORY CONSTRAINTS

I. PPSSCC ISSUE AND SAVINGS

DOD "should take appropriate action to simplify the complex regulatory system which governs the acquisition of weapon systems."

The PPSSCC stated that (1) while it is difficult to quantify, simplification should reduce direct government costs and indirect contractor compliance costs reimbursed by DOD and (2) attracting additional suppliers to the industrial base should lead to lower contractor bids through increased competition.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

Both the Congress and GAO have supported proposed reforms to the federal procurement system, including efforts to simplify and reduce the proliferation of procurement regulations and increase the professionalism of procurement personnel, as PPSSCC has recommended. However, GAO has not endorsed a few of the specific suggestions which the PPSSCC cited, such as limiting the mandatory flow-down of contractual terms, conditions, and regulations to subcontractors and eliminating profit and fee limitations, because it has not been convinced that these actions would be cost-effective.

GAO is currently examining whether agencies' and subagencies' supplementing and implementing regulations under the Federal Acquisition Regulation (FAR) system are unnecessarily duplicating, or modifying without the necessary statutory authority, the provisions of the FAR relating to the recently enacted Competition in Contracting Act. Results of this effort are expected to be available during 1985.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

Public Law 93-400 required development of a system of simplified and uniform procurement policies, regulations, procedures, and forms. In response to that requirement, the FAR was issued and took effect on April 1, 1984. The FAR replaced the three primary procurement regulations (the Defense Acquisition Regulation, the Federal Procurement Regulations, and the NASA procurement regulations). The Office of Federal Procurement Policy has stated that it expected the FAR system to result in a 62-percent reduction in the volume of primary regulations and the elimination of nearly half of all agency secondary and lower level regulations.

Further improvements in streamlining the regulations and improving the professionalism of the procurement work force are possible through executive action.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC did not estimate the savings associated with this issue.

V. RELEVANT GAO REPORTS

GAO/PSAD-79-80	Recommendations of the Commission on Government Procurement: A Final Assessment (May 31, 1979)

VI. GAO CONTACT

Paul Math 275-4587

OSD 21: MAJOR WEAPONS SYSTEM NEW STARTS

I. PPSSCC ISSUE AND SAVINGS

"The Department of Defense (DOD) should install self-disciplinary limits on the number of new weapons programs started each year. Before a new start is approved, an estimate should be made of the projected cost of that new weapons system through production. DOD should then consider the impact of that incremental cost on the overall acquisition process, in view of the limited funds that would be available for that new system and other major systems already being developed or produced. Limits on new starts would ensure that there are sufficient funds to carry out all weapons programs economically and efficiently."

The PPSSCC estimates that limiting the number of development programs should result in annual research, development, test and evaluation (RDT&E) savings of at least $1.1145 billion (in then-year dollars) after full implementation over a 5-year period.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC states "there are too many programs already in the production cycle to permit funding at efficient rates." The PPSSCC points out that "the lack of effective controls over new starts results in each program being given less than the required resources which, in turn, increases system costs and delays introduction of capabilities." To address the problems associated with these situations the PPSSCC recommends changes to DOD's program review and approval cycle. These changes include: in-depth affordability reviews; reviewing new start affordability in relation to all other new starts and established programs; using conservative budget estimates in these reviews; allowing a 140-percent overprogramming factor at the new start stage; and modifying the Selected Acquisition Reports to provide data for affordability analyses on both new starts and approved systems.

The PPSSCC raises a number of good points about DOD's new starts. The PPSSCC points out that "the services do not necessarily request the most cost-efficient programs, but rather that they are driven to propose what will sell." The PPSSCC discusses outside pressures to retain a program once it gets started. The PPSSCC also points out that limited funding information is available when the decision to start a new program is made and that current DOD policy requires that affordability through the early

acquisition phases of concept exploration and demonstration/validation be shown rather than basing the decision on affordability through the entire acquisition process, including the more expensive phases of full-scale development and production.

The PPSSCC would change the official DOD policies regarding affordability reviews to require the items listed above. GAO agrees with these recommendations, however, GAO also believes these actions need to be complemented with efforts to address the incentives within DOD which lead to cost discipline problems and an excess number of new programs. There appear to be no incentives to encourage DOD personnel to limit new starts or to eliminate marginal programs. Personal success is based upon one's ability to get his/her program started and fielded. Changing the official DOD policies regarding the affordability of new starts may not be adequate to change the incentives for people to start and maintain new programs. DOD's reward structure must also be changed to make eliminating marginal programs more acceptable.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

It is possible to implement this issue's recommendation on affordability reviews through executive action.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

According to the PPSSCC, OMB has indicated that the total projected cost of all programs is approximately 230 percent of the funds that are likely to be available. The PPSSCC states that a reduction from the current average over-programming of 230 percent to a level of 140 percent would result in a 40-percent reduction in RDT&E expenditures. It is difficult to determine the basis for this assumption--no basis or background calculations are provided to show how the 40-percent figure is calculated. The PPSSCC also assumes 14 new starts a year (which, according to the PPSSCC, is the average number of new starts per year) with the changed policy and a 10-percent future inflation rate, both of which may or may not occur in the future. Thus GAO can not verify the accuracy of the PPSSCC estimate.

V. RELEVANT GAO REPORTS

GAO/PLRD-82-62 Defense Budget Increases: How Well Are They Planned and Spent? (April 13, 1982)

GAO/MASAD-82-5	Budgetary Pressures Created by the Army's Plans to Process New Major Weapon Systems Are Just Beginning (October 20, 1981)
GAO/MASAD-81-7	Recommendations To Improve Defense Reporting on Weapon Systems (March 2, 1981)

VI. GAO CONTACT

Paul Math 275-4587

OSD 23: INSTABILITY IN THE WEAPONS ACQUISITION PROCESS

I. PPSSCC ISSUE AND SAVINGS

"The Department of Defense (DOD) should commit to a stable five-year spending plan for the acquisition of weapon systems at economical production rates. DOD should focus the attention of Congress on any significant increase in costs that would result from proposals to change the plan. Critical to achieving such a plan for program stability is DOD's ability to relate financial affordability to proposed new systems early in the budgetary cycle. This would avoid accumulating systems that cannot be funded in economic production quantities during the entire production cycle."

Cost growth due to instability on 25 major programs studied recently was estimated to be $27 billion per year. PPSSCC stated that while it is not possible to control instability completely, the improvements recommended for Issue OSD-22 and this issue should save at least 5 to 10 percent of the annual weapons costs (approximately $70 billion), or approximately $5.26 billion (in then-year dollars) once full implementation is in place. The 3-year total estimated savings is $7.18 billion (adjusted for inflation).

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

Recognizing past program instability, the PPSSCC recommended that OSD should exercise its authority and play a more aggressive role in controlling the acquisition of weapon systems. PPSSCC recommended OSD should exercise control in the following ways:

--For its own and external use, such as congressional relationships, DOD should make firm 5-year spending plans based on economical rates of production.

--Minimize cost growth through commitment to program stability that is best evidenced by multiyear procurement contracts.

--Address both the financial affordability of proposed systems and the defense need for the systems in the annual Defense Guidance Report.

--Reestablish its baseline production cost estimate at Milestone III, when program costs can be estimated more realistically.

Recognizing that program managers play a key role in the acquisition process, PPSSCC recommended that DOD take action to lengthen the assignment period of program managers; develop a career path for program managers to provide incentives for improved performance; and hold program managers accountable for those aspects of the program that they are able to control.

GAO supports efforts to establish an acquisition strategy which is mutually agreed to by the Congress and the Administration for accomplishing the development and production of each new major weapon system. The strategy should be prepared by the executive branch for each major milestone of a system's progress through the acquisition process and be reviewed and refined at each major milestone.

GAO also agrees with the PPSSCC that inefficient production rates result in higher unit costs, reduce DOD's purchasing power, and result in program instability. It has not been possible, however, to produce all the weapon systems at the most economical production rate because of many competing requirements for defense dollars as well as other considerations, such as maintaining a production base. It is recognized that trade-offs have been made to expedite the production of certain systems critical to defense needs and to continue to fund others with significant potential in future years at lower levels. GAO believes the important thing is to establish, for each weapon system, the various levels at which economies can be achieved so that decisionmakers in the Congress and DOD are aware of what the economic impacts are when they increase or decrease program funding.

GAO agrees with PPSSCC that there are too many programs for the available level of funding. The result is that programs are underfunded, costs increase, and programs are delayed. To procure systems at the most efficient rates would require substantial increases in appropriations. The alternative is to reduce the number of programs.

Multiyear procurement is a contractual procedure whereby DOD agrees to purchase from a contractor a stated number of weapons systems each year for several years, usually at a fixed price, but possibly with escalation provisions. Multiyear procurement is presently a part of the DOD practice for acquiring weapons systems. The concept of multiyear procurement contracting to help provide weapons systems program stability is supported by GAO whenever the legislative criteria for use of multiyear contracting is met. The desirability of using multiyear contracting must be based on a case-by-case assessment of

potential benefits and added risks that can result from awarding a multiyear contract instead of a series of annual contracts.

A GAO study of the status and accountability of program managers was performed in the early to mid-1970s. At that time, GAO reported similar findings as pointed out by the PPSSCC. GAO is presently evaluating whether the federal procurement work force is able to effectively accomplish its complex task. The assignment, when completed, should help provide a more current perspective addressing program manager qualifications, roles, and responsibilities in making key decisions on acquisition programs.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO believes the executive branch has the authority to initiate action for implementing the PPSSCC recommendations. The executive branch has implemented, in varying degrees, major acquisition improvements along the lines of those recommended by the PPSSCC. For example, initiatives include multiyear procurement and more efficient production rates.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC does not provide sufficient information to make a judgment on the validity of the cost savings. The savings are based on across-the-board percentage reductions in expenditures. GAO has not assessed the overall cost savings to DOD should the measures recommended by the PPSSCC to bring stability to the weapons systems acquisition process be fully implemented.

GAO has found that Defense's estimated savings for its proposed multiyear weapon systems candidates for fiscal years 1983 and 1984 are disappointing when compared to DOD's 10-20 percent savings projected when Public Law 97-86 was under consideration. On the average, GAO reported that discounted savings for the 22 weapon candidates is about 7.3 percent. GAO also found that many of the candidate systems were submitted for multiyear contracting approval prematurely since they did not fully meet all of the legislated criteria. If a multiyear contract were awarded and later changed significantly or terminated, the ultimate cost of the effort could be higher than under annual contracting.

V. RELEVANT GAO REPORTS

GAO/NSIAD-85-9 Analysis of DOD's Fiscal Year 1985 Multiyear Procurement Candidates (October 25, 1984)

GAO/NSIAD-83-70	Analysis of Multiyear Procurement Candidates Included in Defense's Fiscal Year 1984 Budget Request (September 30, 1983)
GAO/PLRD-83-62	The Defense Budget: A Look At Budgetary Resources, Accomplishments, and Problems (April 27, 1983)
GAO/PLRD-82-62	Defense Budget Increases: How Well Are They Planned and Spent? (April 13, 1982)

VI. GAO CONTACT

Paul Math 275-4587

PROC 3: CARLUCCI INITIATIVES (THE ACQUISITION IMPROVEMENT PROGRAM)

I. PPSSCC ISSUE AND SAVINGS

"What actions can be recommended to accelerate the implementation of the most promising of the Carlucci Initiatives?"

"The Carlucci Initiatives can be more effective and produce quicker results by focusing on part of those initiatives."

Potential savings for the recommendations in this issue were not quantified.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC recommended DOD prioritize the Acquisition Improvement Program (AIP) initiatives and concentrate on those that are more significant than others. The PPSSCC developed six issues it considered promising and which it said encompassed nearly half of the initiatives contained in the AIP. The PPSSCC recommended that DOD focus its attention on the six PPSSCC issues.

DOD has already taken action to prioritize the AIP initiatives, although DOD's categories differ from those recommended by the PPSSCC. To focus its implementation of the initiatives, DOD has consolidated them into the following seven areas:

--program stability,

--multiyear procurement,

--economic production rates,

--realistic budgeting,

--improved readiness and support,

--encouraging competition, and

--industrial base responsiveness.

It appears, therefore, that this PPSSCC recommendation addresses an issue that has already been recognized by DOD. GAO cannot offer an opinion as to which of the prioritizations is better because: (1) several of the PPSSCC issues appear similar to the DOD areas and (2) the PPSSCC did not identify which of the AIP initiatives its issues encompassed. GAO would encourage DOD to continue with its implementation of the AIP so that it can realize the benefits inherent in the initiatives.

GAO would agree with the remaining three recommendations: setting goals and objectives for implementing the AIP; requiring program managers to incorporate the AIP in their program plans; and expanding the AIP concepts to non-weapon acquisitions. These steps may provide additional impetus to the acceptance and execution of the AIP in weapon system and non-weapon acquisitions.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The implementation of these recommendations appears feasible. Implementation would require administrative action by DOD that should be within DOD's authority.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

No potential savings for the recommendations in this issue were quantified.

V. RELEVANT GAO REPORTS

GAO/NSIAD-85-9	Analysis of DOD's Fiscal Year 1985 Multiyear Procurement Candidates (October 25, 1984)
GAO/NSIAD-84-70	DOD Needs to Provide More Credible Weapon Systems Cost Estimates to the Congress (May 24, 1984)
GAO/MASAD-82-13	The Army's Multiple Launch Rocket System Is Progressing Well and Merits Continued Support (February 5, 1982)

VI. GAO CONTACT

Paul Math 275-4587

PROC 5: PROGRAM PRIORITIZATION

I. PPSSCC ISSUE AND SAVINGS

How can program prioritization and implementation be improved both in the services and the Office of the Secretary of Defense (OSD) in a limited funding environment?

The PPSSCC says significant cost savings will be involved in this issue but the savings are not precisely quantifiable. The PPSSCC says the greater value lies in bringing more discipline and analysis to the decisionmaking process.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC points out that under DOD's current Planning, Programming, and Budgeting System (PPBS) there are too many programs for the funding available. The PPSSCC says this is a result of several factors: the objective of PPBS appears to be to provide each service with its fair share rather than addressing the services' changing requirements; once programs start it is very difficult to cancel them; there are no incentives in the system for canceling programs; programs are stretched out rather than canceled.

The PPSSCC's findings appear to be reasonable. Its recommendations also appear to be reasonable. Program stability should be increased and marginal programs eliminated. The financial trade-offs resulting from new starts should be identified and assessed and the number of new starts should be limited by realistic assessments of funding requirements and constraints. Financial implications associated with programmatic decisions should be explicitly identified and approved. A closer link between budgeted funds and system programming would be beneficial.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

It appears that executive action would be the method for DOD to use to implement the recommendations associated with this issue. The implementation of the PPSSCC recommendations appears feasible in some cases and more difficult in others. Changes to DOD's PPBS procedures may be possible to implement, as would requiring updates to program budgets whenever major changes occur. Establishing a high priority program list should be relatively easy--establishing a low priority list would be more difficult. Requiring specific information on the trade-offs that must be made to fund a new start could be done by establishing an administrative procedure. It will be

more difficult, however, to get the services to provide a candid assessment of the negative aspects of a new start. Restricting new starts and canceling marginal programs has been, and probably will continue to be, difficult. The PPSSCC touched on the reason in its opening discussion--lack of incentives to eliminate marginal programs.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

No specific savings were projected for this issue and its recommendations.

V. RELEVANT GAO REPORTS

GAO/PLRD-82-62	Defense Budget Increases: How Well Are They Planned and Spent? (April 13, 1982)
GAO/MASAD-82-5	Budgetary Pressures Created by the Army's Plans to Procure New Major Weapon Systems Are Just Beginning (October 20, 1981)
GAO/C-MASAD-81-18	Integrated Approach to U.S. Air Defense of Central Europe Should Result in More Effective Mission Accomplishment (September 18, 1981)

VI. GAO CONTACT

Paul Math 275-4587

PROC 7: WEAPONS ACQUISITION CONTRACTING

I. PPSSCC ISSUE AND SAVINGS

What can be done to improve (1) the source selection process for the prime contractor (e.g., award to lowest "total cost," upgrade proposals prior to selection) and (2) the performance of subcontractors and the flow-down of incentives from the prime contractor to subcontractors?

By streamlining and making the source selection process more efficient and effective, and strengthening government efforts to monitor and upgrade the prime contractor's subcontracting activities, the PPSSCC believes that $980 million in savings can be achieved over 3 years.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATION

PPSSCC stated that insufficient emphasis appears to be placed on

> "the potential 'total cost' of a major weapons program (i.e., the contractor's overall capabilities to perform all phases of the program plus the 'life-cycle' costs of the weapons system) during the source selection process."

Life-cycle cost is made up of (1) initial acquisition cost, and (2) ownership costs, which include maintenance and support costs during the useful life of a product or system such as spare parts, training, fuel, and the pay and allowances for personnel to operate and maintain the system.

Regarding the PPSSCC recommendation that contractors be selected based on the lowest "total cost," GAO has urged DOD to consider life-cycle logistics and backup equipment requirements early in the weapons planning cycle because it has noted that logistics considerations have traditionally received a relatively low priority during the acquisition process.

More than 10 years ago GAO reported on Ways to Make Greater Use of Life-Cycle Costing Acquisition Techniques in DOD (B-178214, dated May 21, 1973). In another report the following year, GAO noted that limited use of life-cycle cost estimates for major weapon systems stemmed from uncertainty about the soundness of data used to develop the estimates. These estimates can indicate which system, of several under consideration, would likely result in the

least ownership cost (GAO/PSAD-75-23). The need to give more attention to "ownership considerations" was also the subject of a 1981 report (GAO/PSAD-81-17).

Although GAO does not believe that source selection decisions on major weapon systems should always be based on lowest "total cost," GAO supports PPSSCC's intent to increase the emphasis on the use of this factor in the source selection process.

GAO believes that more weight should often be given to total cost in the source selection evaluation criteria when reasonably reliable estimated costs are available. However, GAO does not believe that the government should rely solely on contractors' estimates of lowest total cost as the basis for award. Use of government estimates of total cost (based on more complete contractor information and other available data) may be practicable when the government has sufficient assurance that its estimates are reasonably reliable. Depending on the circumstances for each contract award, consideration should also be given to using other appropriate criteria, such as contractors' technical competence, management, cost realism, and relevant prior performance.

PPSSCC also recommended that the Office of the Secretary of Defense strengthen DOD efforts to monitor and upgrade prime contractors' subcontracting activities. Because GAO has not done any work on this subject, it has no basis for an opinion on the recommendation.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

PPSSCC's recommendations can be implemented through executive action.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC conducted interviews with DOD, service, and contractor personnel and reviewed various articles, regulations, and studies in order to evaluate DOD and the services' performance relating to the weapons acquisition process. The PPSSCC estimated potential savings by comparing DOD and the services' observed performance with the performance of the private sector in implementing major capital investments for new facilities.

The PPSSCC savings estimate with a 10 percent inflation factor is $980 million over a 3-year period. Upon full implementation the PPSSCC expects that annual savings will amount to about $500 million (1983 dollars) on a base

of $60 billion a year, or slightly less than 1 percent of annual spending on weapons systems. The savings estimate, as the PPSSCC admits, is "largely judgmental." It is not supported by any data GAO can examine. Thus, GAO has no basis for offering an opinion on the realism of the PPSSCC's estimated savings.

V. RELEVANT GAO REPORTS

GAO/PSAD-81-17	Effectiveness of U.S. Forces Can Be Increased Through Improved Weapons System Design (January 29, 1981)
GAO/PSAD-80-6	Impediments to Reducing the Costs of Weapon Systems (November 8, 1979)
GAO/PSAD-75-23	Life-Cycle Cost Estimating--Its Status and Potential Use in Major Weapon System Acquisitions (December 30, 1974)
B-178214	Ways to Make Greater Use of the Life-Cycle Costing Acquisition Technique in DOD (May 21, 1973)

VI. GAO CONTACT

Paul Math 275-4587

FULL IMPLEMENTATION OF OMB CIRCULAR A-76 (EX 1, PROC 18, PER 12, OSD 7, CONST 17, PROP 5, USAF 21, CONG 4-7, ENERGY 4)

I. PPSSCC ISSUES AND SAVINGS

OMB Circular A-76 directs government agencies to rely on the private sector for its commercial products and services as long as it is more economical than providing the services in-house with government employees. Numerous PPSSCC issues concern OMB Circular A-76. The PPSSCC recommends greater emphasis on OMB Circular A-76 through legislation and through OMB promotional efforts. It also recommends procedures for streamlining the comparison of federal in-house and contracting-out costs, including exemption of small activities from comparisons altogether. The PPSSCC recommends also that OMB seek legislation that would repeal existing congressional prohibitions against contracting out of certain commercial functions.

The PPSSCC estimated savings on eight of these nine issues. Three-year cost savings for the eight issues were projected to be $13 billion. PPSSCC recognized that savings in some of its different task forces were duplicative and, in arriving at its total savings estimate, reduced by $8.8 billion its savings from all A-76 recommendations.

II. GAO ANALYSIS OF ISSUES AND ASSOCIATED RECOMMENDATIONS

Over the past 2 years, the administration has made efforts to accelerate and gain support for the A-76 program. In August 1983, OMB issued revised guidelines that simplified cost comparison procedures and exempted small functions from the cost comparison requirements. In addition, OMB is currently examining ways to change the focus and implementation of the circular to place greater emphasis on the productivity improvement objectives of the program. In spite of these actions, GAO agrees with PPSSCC's position that legislation would be beneficial in encouraging more consistent and widespread compliance with the A-76 policy. GAO has advocated that the Congress legislate a national policy of reliance on the private sector for the government's goods and services since 1978.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

Reliance on the private sector for commercial products and services has been federal policy since 1955, but without widespread compliance by agencies. GAO agrees with the PPSSCC that effective implementation is not likely to occur unless the Congress legislates a national policy of reliance

on the private sector for the government's goods and services. Although several bills have been introduced over the years advocating a national policy, none have been enacted. Also, the Congress has passed legislation which limits the implementation of the circular by precluding some agencies from contracting certain commercial functions out of concern for the potential impact on other areas, such as national security and veterans. As stated above, some PPSSCC recommendations have already been implemented through legislative or administrative action.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC estimates that, over 3 years, savings of $13 billion would result from implementing the recommendations associated with these issues. However, the PPSSCC has recognized that its different task forces, in making savings estimates, duplicated each other. In arriving at its total savings estimate, therefore, the PPSSCC subtracted $8.8 billion to reflect and compensate for its double counting of savings from all its A-76 recommendations. GAO has not made an estimate of the potential savings if the A-76 program was fully implemented. CBO made a comprehensive study in 1982 and estimated that, in the long term, savings from fully implementing the A-76 program government-wide would be $1.1 billion a year. PPSSCC estimates incorporate much larger average savings per conversion to contract than did CBO in its study. The CBO estimates reflect comparisons, by occupation and region, of federal and private sector unit labor costs.

V. RELEVANT GAO REPORTS

GAO/PSAD-78-118	Development Of A National Make-Or-Buy Strategy--Progress And Problems (September 25, 1978)
GAO/FPCD-81-43	Civil Servants And Contract Employees: Who Should Do What For The Federal Government (June 19, 1981)
GAO/PLRD-83-74	Synopsis of GAO Reports Involving Contracting Out Under OMB Circular A-76 (May 24, 1983)

VI. GAO CONTACT

Harry Finley 275-4268

NAVY 4: MODERNIZATION AND PRODUCTIVITY ENHANCEMENT OF CONTRACTORS

I. PPSSCC ISSUE AND SAVINGS

What actions could the Navy take to reduce the unit costs of major weapon systems, equipment and material being procured from industry?

The PPSSCC stated that current unit costs could be greatly reduced if contractors were motivated to substantially increase their capital investments in productivity enhancing equipment and facilities. It suggested there is potential for hundreds of millions of dollars to be saved on weapon systems if the Navy fully implements the new DOD Industrial Modernization Incentives Program (IMIP) and increases funding for the Manufacturing Technology Program (MTP). According to PPSSCC, fiscal year 1984 funding of MTP should bring savings of $285 million based on only a 5 to 1 return, with increasingly greater savings in the out years.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The issue--namely, the need to reduce the high level of Navy weapon systems acquisition costs--is a valid concern which GAO has long recognized and reported on from numerous perspectives. Given the validity of the issue, GAO has two basic concerns with the PPSSCC's approach:

--First, the issue applies equally to all services and DOD activities, although PPSSCC recommendations address only Navy activities.

--Second, the PPSSCC recommendations represent a limited approach to dealing with the overall issue.

Although the PPSSCC's concerns regarding acquisition costs are valid, GAO cannot endorse any of the three associated recommendations. For the first--Navy endorsement of the Industrial Modernization Incentives Program (IMIP)--the action recommended would be premature. IMIP is still being tested and no evaluation of its effectiveness or ramifications have been completed. The second recommendation calls for the Navy to strongly support a flexible interpretation of Cost Accounting Standard 409 (Depreciation of Tangible Capital Assets) which would result in shorter service lives for capital assets. The recommendation is directed at encouraging productivity-enhancing investments. DOD issued clarifying guidance on the appropriate use of shorter service lives as prescribed under CAS 409. The guidance emphasized that shorter service lives may be used when the CAS 409 criteria of unique purpose or special circumstances have been met. GAO

agrees with the guidance. The PPSSCC recommendation does not provide the necessary emphasis on meeting the criteria set forth in the standard for use of shorter service lives and could result in significant problems. The third recommendation--increasing funding for the Manufacturing Technology Program--requires support from OSD and the Congress as well as the Navy. In prior years, either OSD or the Congress has cut Navy requests for an increased Manufacturing Technology Program budget. The PPSSCC recommendation was based on an estimate that there would be a 5 to 1 return on program funding. GAO has been unable to verify direct cost savings resulting from this program, although various other benefits have been documented.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO generally agrees with the PPSSCC that the Secretary of the Navy has the authority to implement these recommendations. This authority, however, is tempered by OSD and congressional direction and authority. For example, in 1983, the Appropriations Committees directed OSD and the services to proceed cautiously in establishing IMIPs. The House Appropriations Committee had initially recommended that each service be limited to two programs. The Navy is actively participating in the IMIP test effort by working with several contractors to establish business arrangements for modernization. In contrast, the Army has virtually withdrawn active support for this program.

The Department of Defense clarified its position on the use of shorter service lives for capital assets in a memorandum issued June 22, 1983, to Heads of Military Services and Directors of Defense Agencies. GAO agrees that this standard provides flexibility regarding service lives when the criteria have been met and believes the Navy should follow DOD's guidance. Encouraging use of shorter service lives without meeting the criteria may lead to unintended consequences, including increased costs.

For the past several years, the Navy has been requesting increased funding for the Manufacturing Technology Program, although the requests have fallen far short of the PPSSCC recommendation. The Congress, however, has been reluctant to significantly increase funding for the program in all services due to a lack of demonstrable cost savings. In FY 1985, OSD acted to limit the Navy's request for the program. The initial request for the FY 1985 budget was $68.5 million, an increase of $11.5 million over FY 1984 apropriations. However, OSD reduced the request to $50.5 million.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC tied a specific savings estimate only to the recommendation to expand the Manufacturing Technology Program, and stated, more generally, that full implementation of the IMIP would save "millions of dollars." GAO cannot comment on the validity of these savings estimates, since the rationale for their development is described in very general terms.

Based on GAO's current and past work relative to the DOD Manufacturing Technology Program, the savings estimated by PPSSCC cannot be verified. GAO has found that it is very difficult to substantiate actual cost savings attributable to the program. The 5 to 1 return cited by the PPSSCC is a Navy goal rather than a documented result of the program.

Concerning the impact of a looser interpretation of Cost Accounting Standard 409 on depreciation, GAO believes, at least in the short term, the Government would incur large increases in cost--not reductions. In the third area, which deals with implementation of the Industrial Modernization Incentives Program, GAO believes that until the current test is completed and cost savings are identified, it is premature to state that the Program will save "millions of dollars."

V. LIST OF RELEVANT GAO REPORTS

GAO/PSAD-79-99	Manufacturing Technology--A Cost Reduction Tool at the Department of Defense That Needs Sharpening (September 11, 1979)
Correspondence	Signed by Robert Gilroy, Senior Associate Director, re: Cost Accounting Standard 409 (November 17, 1982)
GAO/NSIAD-85-5	DOD Manufacturing Technology Program--Management Is Improving But Benefits Hard to Measure (November 30, 1984)

VI. GAO CONTACT

Paul Math 275-4587

PRIVATE 5, OSD 32, CONG-01-03: COMMISSARY OPERATIONS

I. PPSSCC ISSUE AND SAVINGS

The military commissary system was examined by two separate PPSSCC task forces, the OSD Task Force, and the Privatization Task Force. Issues and recommendations from both task forces are discussed in this section.

The OSD Task Force asked whether the Department of Defense should discontinue operating commissaries in the continental United States and whether it should permit exchanges to sell food and staple items in those areas where adequate commercial food stores are not available. Assuming an annual 10 percent inflation factor, the PPSSCC estimated that closing commissaries in the United States would save $972.7 million over 3 years.

The Privatization Task Force also looked at the commissary system and asked whether the present system should be privatized in order to improve the commissary stores and to offset the need for appropriated funds and, if so, what level of privatization should be employed. The PPSSCC estimated that total privatization would provide a 3-year savings of about $2.4 billion.

II. GAO ANALYSIS OF ISSUES AND ASSOCIATED RECOMMENDATIONS

GAO believes that insufficient analysis has been done to warrant taking a firm position on whether either PPSSCC recommendation--to close commissaries or to privatize them--should be implemented. However, GAO does agree with the PPSSCC proposal that an independent market basket survey be performed. Such a survey would help establish the extent to which commissary patrons actually save on their total grocery bill.

The need and justification for military commissaries in the continental United States--particularly in major metropolitan areas--have been examined by GAO on several occasions over the past 20 years, most recently in January 1980 (FPCD-80-1). GAO reported that, based on the original--and to date unchanged--legislative criteria for establishing commissaries, many stores in the United States can no longer be justified. These criteria concern the reasonableness of price, distance to food stores, and the adequacy of food selection.

GAO did not recommend, however, that stores not meeting these criteria be closed. Instead, GAO recognized that, over the years, the availability of commissaries has come to be viewed by military personnel as an important non-cash element of compensation. Therefore, GAO recommended that (1) the

Congress redefine the justification criteria for having military commissaries to recognize formally that they are a compensation benefit and, as with any other component of the compensation package, that commissaries must be shown to be a cost-effective incentive to improve recruiting, retention, and motivation, and (2) DOD evaluate the cost-effectiveness of this compensation benefit versus available alternatives to achieving the same recruiting, retention, and motivational goals.

DOD continues to argue that the military services should operate commissaries and that any change in this practice would be considered by military personnel as a reduction in the compensation package. However, DOD has never evaluated whether this component of the benefit package is a more or less cost-efficient incentive than other available alternatives, or whether the same benefit value would accrue if commissaries were operated by private sector contractors. GAO believes that such an evaluation as we previously recommended is still needed and should be done before any action is taken to close commissaries as recommended by the PPSSCC's OSD Task Force.

The PPSSCC's Privatization Task Force recommendation was in two parts; first, that an independent market basket survey be done to compare commissary and commercial grocery store prices, and second, that stores not meeting the price criteria be "privatized"; that is, that operation of these commissaries be contracted-out.

Over 60 percent of the commissaries operating in the United States are justified on the basis that commercial supermarket prices are too high. GAO and others have criticized the price survey as being unrepresentative, possibly biased, and frequently deficient in items covered. Therefore, GAO agrees with the first part of the PPSSCC recommendation concerning the need for an independent market basket survey. Such a survey would help establish an objective measure of how much commissary patrons actually save on their grocery bills, and is a first step in determining whether the commissary benefit is a cost-effective compensation element. The second part of the recommendation that commissary stores be "privatized" may have merit, but it needs more study because the impact of such a decision on service members has never been evaluated.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC believed that commissaries in the United States could be closed or privatized without any specific legislative action, except that in certain cases DOD may be required to comply with 10 U.S.C. 2687--a statute dealing with installation closures and major functional realignments.

GAO agrees that authority to close or privatize commissaries in the United States--or overseas--currently resides in the DOD. However, it is equally clear that even if DOD agreed with either recommendation (which it does not) and began action to implement one or the other, congressional attention would be immediately forthcoming.

The military commissary system is strongly supported by both the House and Senate Committees on Armed Services. This support was most recently evidenced in hearings held during March 1984 by the House Committee on Armed Services on the PPSSCC proposals. The Committee concluded that commissaries are a key element in the total military compensation package and are critical to recruiting, but more importantly, to retaining high quality personnel. They recognized, however, that the pricing surveys used to justify commissaries have been controversial, and they directed that an independent survey comparing commercial and commissary prices be done by a private sector firm--as recommended by the PPSSCC--and that the report be submitted to the Committee by December 31, 1985. The Committee stated that "when completed it should demonstrate to taxpayers, Congress, military personnel and industry that commissaries provide substantial savings to patrons and are justified on a cost benefit basis" (House Rept. 98-691, April 19, 1984).

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

Terminating commissary operations in the United States would reduce the Operations and Maintenance appropriation accounts, probably by an amount close to the PPSSCC estimate. However, this does not necessarily mean that overall savings would accrue to the government. Since military members view commissaries as part of their compensation package, eliminating this benefit would be seen as a reduction in pay. Several DOD-sponsored studies have shown that actual or perceived reductions in compensation adversely affect recruiting and retention. Consequently, to offset these personnel losses, some other component of the compensation package might have to be increased. This would mean an increase in the military personnel appropriation accounts. Furthermore, if members place a higher value on the commissary benefit than it costs the government to provide the benefit, eliminating the benefit could increase total costs rather than result in any savings.

GAO's analysis indicates that the 3-year savings estimate of $2.4 billion from privatization is overstated, and that, assuming no adverse recruiting or retention impact from implementation, a more realistic estimate would be in the $1 billion range. The reason this PPSSCC estimate is overstated is that, in addition to a reduction in the identifiable appropriated fund costs (about $402.2 million in fiscal year 1983), the PPSSCC estimated that $170.5 million in indirect

costs and $26.4 million in interest on the investment in inventory would be saved annually. The 3-year savings was then projected using a 10 percent inflation factor. In GAO's opinion, savings in these areas are questionable. GAO reviews have shown that commissaries do benefit from certain base support services such as fire protection, snow removal and grounds maintenance for which they do not pay. However, GAO has found no evidence that the cost of such functions would be reduced without commissaries or if commissaries were contracted out, although contractors could be required to pay for such services. Also, recent history indicates that a 10 percent inflation assumption is excessive.

V. RELEVANT GAO REPORTS

GAO/FPCD-80-1	Military Commissaries: Justification As a Fringe Benefit Needed; Consolidation Can Reduce Dependence on Appropriations (January 9, 1980)
GAO/FPCD-75-88	The Military Commissary Store: Its Justification and Role in Today's Military Environment (May 1975)

VI. GAO CONTACT

Kenneth J. Coffey 275-5140

I. PPSSCC ISSUE AND SAVINGS

Can the fifth Space Shuttle and Expendable Launch Vehicles (ELVs) of the National Aeronautics and Space Administration's (NASA) National Space Transportation System (NSTS) be privatized?

Privatizing space launching services could enable NSTS to increase the economic base of the United States, compete more effectively with foreign competitors, and strengthen U.S. space leadership.

By accepting private sector investors in a fifth space shuttle, the government could avoid $2,300 million in costs over 5 years. The PPSSCC estimates the cost avoidances for the first 3 years would be $1,522.6 million. While not estimated, private sector participation in other shuttles and ELV systems could yield other cost avoidances.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The privatization of a fifth space shuttle needs to be examined from a different perspective than that used to consider the question of whether NASA's ELVs can be privatized. The space shuttle is the government's primary Space Transportation System (STS) and it is anticipated that about two-thirds of the payloads launched on the space shuttle will be government payloads. NASA's studies indicate the four orbiter fleet will be sufficient for the remainder of this decade. Thus, the actual need for a fifth orbiter is still a much debated question that has yet to be resolved.

GAO agrees with the PPSSCC that privatization of the space transportation system is a concept which should get further consideration. However, as discussed in a December 1982 report, GAO also believes that the issue which should be addressed is not solely that of the operation of a potential fifth orbiter, but the broader issue of who should operate the "total" shuttle fleet--regardless of its size. (See our report GAO/MASAD-83-6.)

The July 4, 1982, national space policy provides that for the near term, the shuttle will continue to be managed and operated in an institutional arrangement consistent with the current NASA/DOD Memorandum of Understanding. The analysis supporting that space policy decision was issued by NASA in August 1982. It states that the evolving NASA/DOD partnership, strengthened by infusion of DOD personnel into the functional line management of the space shuttle, is the organizational setting best suited to direct near-term national shuttle operations. This partnership provides the flexibility for a far-term transition to a new institutional setting if required.

The privatization of ELVs is a different matter. NASA's plans are to phase out of the ELV business as the space shuttle launch capability grows. Privatizing the ELV operations will maintain a launch system to complement the space shuttle. However, the space shuttle will be competing for payloads with the ELVs and this does add problems that NASA must deal with particularly in establishing the space shuttle pricing policy.

The PPSSCC recommended that the President and the Congress should develop and enact legislation to allow private sector participation in the space program and initiate cooperative agreements offering incentives to private sector firms investing in space transportation systems. These recommendations appear to be in consonance with the July 1982 U.S. national space policy goal to "...expand U.S. private sector investment and involvement in civil space and related activities" and the May 16, 1983, Presidential announcement that the U.S. Government fully endorses and will facilitate commercial operations of ELVs by the U.S. private sector.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

In October 1983 the NASA advisory council, a group of prominent individuals from the scientific community which provides advisory input to NASA management, recommended that NASA separate the operating budgets, facilities and personnel required to support the operational space shuttle from the rest of NASA's programs. One reason for this action is to ease the transfer of shuttle operations to the private sector or to some other government operating agency, should such a transfer be desired. The House Committee on Science and Technology endorsed this view and required NASA to submit to the Committee by December 31, 1984,[1] a preliminary time table for the completion of activities to separate all of the shuttle's operating budgets, facilities and personnel including a rationale for the timing of each milestone.

On the other hand, NASA and the Congress have already started action to privatize the ELVs. NASA began the solicitation/negotiation process in September 1983 to turn the operation of the Delta and Atlas/Centaur ELVs over to the private sector. In addition, the Congress recently passed the Commercial Space Launch Act, and the bill became law when signed by the President on October 30, 1984.

The purpose of the Commercial Space Launch Act is to encourage the growth of a commercial space launch capability

[1] NASA said this information will be provided to the Committee in January 1985.

which will complement NASA's space transportation system. This act designates the Department of Transportation (DOT) as the lead government agency for encouraging and facilitating the commercialization of expendable launch vehicles. DOT provides a single face to space entrepreneurs and replaces the previous 18 federal agencies and 22 statutes previously involved in the approval process. DOT will be required to consult with the Department of State in matters affecting foreign policy, and the Department of Defense in matters affecting national security.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC's 3-year cost avoidance estimate of $1,522.6 million is a straightforward calculation based on the Office of Management and Budget's cost estimate for a fifth orbiter.

V. RELEVANT GAO REPORTS

GAO/MASAD-83-6 Issues Concerning The Future Operation Of The Space Transportation System (Dec. 28, 1982)

VI. GAO CONTACT

Harry Finley 275-4268

STATE 6: IMPROVEMENTS IN THE PROJECT PLANNING, APPROVAL AND MONITORING

I. PPSSCC ISSUE AND SAVINGS

PPSSCC concluded that the management process at the Agency for International Development (AID) can be improved to eliminate waste and overcontrol in the planning, approval, and monitoring of development projects. PPSSCC estimated cost savings from reducing personnel time spent planning, approving, and monitoring AID projects at $32.8 million over the next 3 years.

II. GAO ANALYSIS OF ISSUE AND RECOMMENDATIONS

GAO generally agrees that AID's planning, approval, and monitoring of development projects can be streamlined and made more effective. PPSSCC made five recommendations under this issue.

First, the PPSSCC recommended that AID increase the dollar value of block grants. GAO agrees that increasing the flow of development assistance funds to private voluntary organizations could reduce AID's cost of planning, approving and monitoring project activities. However, the extent of such reductions may be limited in view of constraints on the capability of such organizations to handle large increases in assistance programs and the fact that these organizations will also incur program administrative costs.

Second, the PPSSCC recommended that the Agency Director request congressional action to return deobligation/reobligation authority to AID. Congress granted AID this authority as part of the fiscal year 1985 continuing resolution.

Third, the PPSSCC recommended that the Agency Director empower a panel of AID officers to study ways of further decentralizing authority. GAO agrees that opportunities exist for AID to delegate greater decisionmaking authority to overseas missions. AID is intended to be a field-based organization, and although the ratio of Washington to field personnel has improved, more AID personnel are still located in the Washington headquarters than are assigned overseas. A 1983 AID task force concluded that AID/Washington's excessive involvement in the project review and approval process results in over-designed, highly complex, and labor-intensive projects. The task force recommended that field missions be given greater project development responsibility and authority. Using the task force recommendation AID is currently experimenting with new project development procedures in the Asia Bureau.

AID plans to use the successful components of this experiment in other geographic regions.

Fourth, the PPSSCC recommended that the Agency Director instruct members of his/her staff to consult with congressional staffers about ways to reduce the time associated with congressional reporting requirements by 15 percent. AID annually expends significant time and effort responding to congressional reporting requirements. AID regularly submits to Congress, detailed information on all ongoing and proposed project activities. In addition, AID must report to the Congress modifications in project scope or funding within 15 days of anticipated changes. While GAO believes there is potential for reducing the volume of information sent to Congress, the Congress has historically maintained close scruitiny over AID activities. Thus, it is unlikely that significant reductions in reporting requirements would be accepted by congressional oversight committees.

Fifth, the PPSSCC recommended that the Agency move to a 2-year budget submission cycle. At this time GAO does not recommend adopting a biennial budget cycle. GAO believes that financial management problems go well beyond the question of biennial budgeting and that it is time to reexamine the entire financial management system of the federal government.

III. GAO ASSESSMENT OF IMPLEMENTATION, AUTHORITY, FEASIBILITY, AND STATUS

GAO and AID generally agree and support the recommendations for improving AID's planning, approval, and monitoring of development projects. In all cases, action is either being taken or is being considered. Assessment and status of the five recommendations follow.

--Although implementable through executive action, GAO believes, and AID agrees, that the potential for increasing the dollar value of block funding to private voluntary organizations is constrained by the limited capability of such organizations. In a 1982 report, GAO found that private voluntary organizations generally lack the administrative and technical capabilities to handle any large or rapid funding increases without becoming financially dependent on AID. AID officials also told GAO that the developmental objectives of private voluntary organizations are not always consistent with U.S. foreign policy. AID is currently meeting the congressional requirement for channeling 12 percent of development and disaster assistance through private organizations.

--AID requested and received, in the fiscal year 1985 continuing resolution, authority to deobligate and reobligate appropriated funds.

--AID is currently experimenting in the Asia region with new procedures that would further decentralize decisionmaking authority. This experiment is testing opportunities for delegating greater project development decisionmaking authority to field missions. At the conclusion of the experiment, the AID Administrator expects to exercise his executive authority and extend the successful components of the experiment to the rest of the Agency.

--AID has discussed reducing reporting requirements with various oversight congressional committees; as a result, a few requirements have been eliminated. Although the bulk of AID's congressional reporting requirements are not formally mandated by legislation, any changes would have to be mutually agreed upon by AID and the responsible congressional committees. Based on Congress' expressed desire to maintain close scrutiny over AID activities, GAO believes it is questionable whether significant reductions in reporting requirements can be expected.

--AID is in favor of using a 2-year budget cycle, but Congress has not passed the required enabling legislation.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO has no basis for estimating cost savings resulting from the recommendations. Although GAO agrees that savings could be realized from implementing these recommendations, primarily through AID staff reductions, the PPSSCC projections can only be considered rough estimates. Specifically, the PPSSCC cost estimates of $32.8 million over three years are based on an old consultant report (1978) and unquantifiable AID staff opinions.

V. RELEVANT GAO REPORTS

GAO/ID-82-25 Changes Needed To Forge An Effective Relationship Between AID and Voluntary Agencies (May 27, 1982)

VI. GAO CONTACT

Joseph Kelley 275-5790

STATE 8: FOREIGN SERVICE ROTATION POLICY

I. PPSSCC ISSUE AND SAVINGS

PPSSCC recommended that AID's Foreign Service rotation policy be changed to reduce personnel transfer costs and make the performance of the officers more effective. By enforcing the policy of 4-year minimum assignments, the PPSSCC asserted that annual transfer cost savings of $1.6 million could be achieved, based on fiscal year 1982 outlays, and that project oversight and implementation would be improved. Three-year savings are estimated by PPSSCC at $5.3 million.

II. GAO ANALYSIS OF ISSUE AND RECOMMENDATIONS

GAO has not done work directly related to this issue recently and, therefore, has little basis for expressing an informed opinion as to its merits. However, obvious benefits from longer overseas tours would include cost savings from less frequent moves and greater continuity and institutional memory at overseas posts. These benefits may be offset somewhat by the fact that in some countries, longer tours may pose a hardship on employees and their families, adversely affecting morale and possibly recruitment and retention.

III. GAO ASSESSMENT OF IMPLEMENTATION, AUTHORITY, FEASIBILITY, AND STATUS

The current AID policy on foreign service assignments embodies the PPSSCC recommendation of enforcing 4-year assignments. The AID policy, as described in Handbook 25, dated February 25, 1977, states that the normal overseas tour is 2 years followed by home leave, with reassignment for an additional 2 years in the same country. AID states that the average assignment lasts less than 48 months because some hardship posts do not require a second tour and some tours are shortened on compassionate grounds. AID believes that its tours of duty are gradually achieving the 48 month target.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

In concept, lengthened tours of duty should result in fewer transfers of personnel, reduced travel and transportation costs, and modest cost savings to AID. With respect to the PPSSCC's savings estimate, GAO has no basis for commenting.

V. RELEVANT GAO REPORTS

None.

VI. GAO CONTACT

Joseph Kelley 275-5790

STATE 4 AND EX 7: PURCHASE OF FOREIGN CURRENCIES

I. PPSSCC ISSUE AND SAVINGS

"Does the purchase of foreign currencies ($1.6 billion in FY 1981) by the Department of State for payment of overseas operating expenses in other countries provide an opportunity for cost savings?"

If conditions similar to those between FY 1973 to FY 1980 continue, cost savings of over $17.1 million could be achieved on non-defense expenditures over the next three fiscal years by implementing the recommendations to reduce exposure to foreign currency fluctuations. (STATE 4)

The PPSSCC further estimated that implementation of its recommendations within the Department of Defense would save an additional $421 million over three fiscal years. (EX 7)

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

Department of State disbursing officers purchase foreign currencies on a "spot basis" for payment of State's and other agencies' overseas operating expenses. The PPSSCC claims that between FY 1972 - FY 1980 there were $52 million in non-defense budget overruns due to a decline in the value of the dollar. The PPSSCC recommends that to avoid these "losses", State establish a system, comparable to that used by private businesses, to reduce its exposure to foreign currency fluctuations. Specifically, the PPSSCC recommends that State

--develop an accounting system to gather foreign exchange needs,

--establish a foreign exchange/forward desk, and

--hire staff and define functions for the trading desk.

These recommendations do not fully consider the significant differences between activities of the private and government sectors.

The private sector uses the forward or futures market to insure the home currency value of a future expenditure or receipt of foreign currency. The absence of a futures contract would expose contracting parties to possible gains or losses from currency fluctuations which could inhibit longer term contracts in international commerce.

Possible "gains" or "losses" to the government are not comparable. Such "gains" or "losses" are in fact just deviations from the exchange rate assumptions involved in the budget process. The important issue is that of proper budget process and congressional control. If the dollar

is worth more than the value assumed in the budget, agencies get more real resources than Congress appropriated. If the dollar is worth less, agencies get fewer resources and must cut back programs or seek supplemental appropriations. One solution to this problem is a multiyear revolving fund into which gains relative to exchange rate assumptions in the budget are deposited and from which losses would be made up. Such a solution is consistent with the implemented GAO recommendations that the Department of Defense initiate an alternative funding method to eliminate exchange rate gains and losses from the Department's budgetary process. This is also the rationale behind State's Buying Power Maintenance Account.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

Department of the Treasury regulations prohibit agency use of future/forward foreign currency option contracts. Treasury would have to rescind or revise this prohibition. In addition, State foresees the need for a change in authorizing legislation.

PPSSCC recommendations have been rejected by the administration, primarily on the basis of Treasury's historical opposition to such proposals. Treasury believes that adoption of such a system would be a speculative use of government resources, would impact on foreign currency markets either because of the size of the contracts or political interpretation of the purchases, and would not necessarily result in exchange rate savings as currency fluctuations balance out over time.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The savings estimate depends on the particular years used to make the estimate. Because the dollar has steadily increased in value over the past five years, there would be no aggregate "losses" due to currency fluctuations over this most recent period. Had futures contracts been purchased at the beginning of each of the past five fiscal years, the United States would have lost substantial sums of money.

V. RELEVANT GAO REPORTS

GAO/ID-78-33 Better Program Management Through Eliminating Exchange Rate Gains and Losses from DOD Budget Process (April 7, 1978)

VI. GAO CONTACT

Allan Mendelowitz 275-4812

NAVY 14: CURRENCY BALANCES

I. PPSSCC ISSUE AND SAVINGS

"Could the Navy reduce its holding of currency, both foreign and domestic, without adverse impact?"

PPSSCC estimated annual savings of $6-7 million in interest costs and a reduction of risk due to foreign exchange value fluctuations. The estimate is based on a 13% interest cost presently incurred to carry a $51 million currency balance -- $45 million to cash military payroll checks and $6 million for foreign currency exchanges -- held by disbursing officers, which appears excessive to the needs of the Navy. To realize these savings, PPSSCC recommends that the Navy assure closer monitoring of currency balances, encourage earlier implementation of the system for direct deposit of payroll, and establish banking arrangements with certain European banks on foreign currency matters.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO agrees with the PPSSCC recommendation that Navy can improve its cash management by closer monitoring of its currency balances and by encouraging implementation of the pay check direct deposit system.

According to PPSSCC, the Navy pays most military personnel by check but then proceeds to immediately cash most of the checks for the payees. PPSSCC believes that if funds to cover payroll were directly deposited to payee banks, the Navy could reduce the cash balances it needs to meet the payroll needs of its shore activities. PPSSCC recommends that the Navy monitor its currency balances and encourage its personnel to participate in the direct deposit program. This could reduce the need for disbursing officers to hold cash for paychecks by $45 million.

The remaining recommendation by PPSSCC to improve cash management in the Navy would involve establishing banking arrangements with banks located in Italy, Spain, and the United Kingdom to reduce the amount of foreign currency held by the Navy. The Navy now holds foreign currency to pay for minor portside services, to provide for local money exchange for military personnel, and to provide for travel advances in foreign countries. These banking arrangements would include local banking officers boarding incoming ships to perform currency exchange transactions for personnel. This would reduce the amount of foreign currency held by disbursing officers on ships. Although GAO has not done work in this area the recommendation appears to have merit.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with PPSSCC that the Navy has authority to effect the recommendations. GAO forsees no major practical obstacles to the Navy implementing the recommendations. In November 1985, the Navy intends to implement a new system for direct deposit of pay checks for shore based military personnel. Military personnel, however, have the option to participate in the direct deposit program.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

PPSSCC believes that implementation of its recommendations would result in potential reductions in cash holdings of $45 million for payroll and $6 million in foreign currency. PPSSCC assumed an interest rate of 13% to this reduction and projected a potential annual savings of $6.6 million. PPSSCC does not show the basis for estimating the cash holdings and the interest rate it applied.

Although greater participation in the direct deposit program will reduce the amount of cash the Navy disbursing officers would need to retain to cash payroll checks, the amount of the reduction would depend on the degree of increased participation in the direct deposit program and other factors such as whether the Navy will permit the cashing of personal checks, in lieu of payroll checks, at disbursing officers' facilities.

While the amount of potential savings may be in doubt, implementation of PPSSCC's recommendations would result in better cash management, a reduction in cash holdings, and an increased savings to the federal government because of the reduction of funds Treasury needs to borrow to maintain these cash balances at Navy activities.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

John F. Simonette 275-9490

AG 24: PHASE OUT FAS COOPERATOR FUNDING

I. PPSSCC ISSUE AND SAVINGS

The Foreign Agricultural Service' (FAS) Cooperator Funding Program should be phased out. The PPSSCC estimated that $36.7 million could be saved over three years; total savings over the recommended 4 year phase-out period are estimated at $61.2 million.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

FAS and private sector agricultural commodity or product organizations (known as cooperators) jointly fund a variety of foreign market development activities. FAS' fiscal year 1983 expenditures for these activities were about $21.7 million; the cooperators and foreign third parties spend about $25.2 million and $32.8 million, respectively, on these activities.

The PPSSCC's recommendation to phase out FAS funding of the cooperators' overseas activities is based on the view that the beneficiaries of export market development, namely the private sector cooperators and their producer and exporter members and not the government should bear the costs of export promotion. The PPSSCC recognizes the possible merit of using federal funds as "seed money" to assist new groups in developing foreign markets but concludes that as the groups and their programs mature it is inappropriate to continue open-ended federal funding. According to the PPSSCC, the cooperators could readily replace lost FAS funds and also continue to avail themselves of non-financial FAS support in planning, coordination, and country assistance.

Philosophically, the PPSSCC's position is appealing. GAO has expressed the view in prior recommendations to the Secretary of Agriculture to

"(1) establish criteria for determining when products supported under the cooperator program are well established in a market and no longer warrant Foreign Agricultural Service assistance" and

"(2) review current support to cooperators and eliminate or phase out assistance no longer appropriate."[1]

Unlike the PPSSCC's recommendation to phase out all FAS funding, GAO's recommendations were limited to phasing out FAS funding of activities in established markets and

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[1] <u>The Agricultural Attache Role Overseas: What He Does and How He Can Be More Effective for the United States</u>, ID-75-40, April 11, 1975.

activities of established cooperators. GAO believes that under certain circumstances government assistance for foreign market development activities may be appropriate.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC recommendation could be implemented through Executive Branch action. However, the cooperator program has strong congressional and constituent support. In the Agriculture and Food Act of 1981 (Public Law 97-98), Congress requested that the Secretary of Agriculture continue the cooperator program "at the same funding level (adjusted for inflation) as provided during fiscal year 1970." Complete elimination of this program, therefore, would be difficult to achieve. FAS has not implemented the PPSSCC recommendation on the grounds that it is based on incorrect information and that implementation would be inadvisable.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC savings estimate is based on the assumption of a constant program level reduced 25 percent each year over a 4-year period plus an assumed proportionate reduction in associated administrative costs. The estimate is reasonable.

V. RELEVANT GAO REPORTS

GAO/ID-75-40 The Agricultural Attache Role Overseas: What He Does and How He Can be More Effective for the United States (April 11, 1975)

VI. GAO CONTACT

Allan Mendelowitz 275-4812

AG 26: REDUCE P.L. 480 FREIGHT DIFFERENTIAL PAYMENTS

I. PPSSCC ISSUE AND SAVINGS

"The payment of the Titles I and III ocean freight differentials should be administered more efficiently. There are potential cost reduction savings of $12 million per year, $39.7 million over three years, if recipients are given incentive to negotiate lower rates on American carriers. In addition, Foreign Agricultural Service (FAS) administrative costs could be reduced by about $140,000 per year."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

Shipments of agricultural commodities under Titles I and III of the Public Law 480 food assistance program are subject to the Cargo Preference Act of 1954 which requires that at least 50 percent of the cargo be transported on U.S. flag vessels. The cost of ocean freight is paid by the recipient countries upon delivery of the commodities, except that the U.S. government pays the ocean freight differential. The differential is essentially the extra transportation cost of U.S. carriers over that of the foreign carriers that, without the cargo preference requirement, would have transported the cargo.

Under the present system used by the Department of Agriculture (USDA), recipient countries or their transportation agents solicit bids, negotiate rates, and select U.S. and foreign flag vessels. USDA oversees this process. The PPSSCC concluded that there is no incentive in the system for countries or their agents to negotiate the lowest possible rates on U.S. flag vessels because the United States pays whatever freight differential exists between U.S. and foreign flag carriers. The PPSSCC further concluded that the freight differential payment procedures used by other U.S. government agencies, namely the Agency for International Development (AID), under its foreign assistance program provided significant incentives to negotiate the lowest possible transportation costs. Therefore,the task force recommended that Agriculture

--adopt a P.L. 480 freight differential payment procedure similar to the one used by AID and

--transfer the functions of monitoring P.L. 480 cargo preference compliance to AID after disbanding the Agriculture group currently responsible.

GAO agrees with the PPSSCC that under Titles I and III of P.L. 480, recipient countries or their agents have no incentive to negotiate the lowest possible rates on

U.S. flag vessels. However, the PPSSCC does not provide the basis for its conclusion that AID's procedures provide significant incentives to negotiate low transportation rates. Presumably, the PPSSCC's rationale involves the fact that AID-financed transportation costs are included in AID's grants and loans to foreign countries. Thus, foreign countries would have an incentive to negotiate lower transportation costs to (1) maximize the value of goods purchased and (2) minimize, to the extent that the assistance is in the form of loans, the portion of future loan repayments attributable to transporation costs. This incentive, however, is diminished by the fact that most of AID's assistance (over two-thirds in fiscal year 1984) is in the form of grants. In addition, the liberal repayment on AID loans (e.g. loans to less-developed countries are repayable over 40 years) also dull any incentive to negotiate lower transportation rates.

Based on ongoing work, GAO disagrees with the PPSSCC's recommendation that USDA transfer the cargo preference monitoring functions to AID. This recommendation does not appear organizationally sound. USDA, which has overall responsibility for implementation of this P.L. 480 program would have to transfer the significant monitoring function to another agency.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC recommendations could be implemented through Executive Branch action but would require significant changes in regulations and P.L. 480 agreements with recipient countries. USDA expenditures would also increase if USDA adopted AID's practice of financing the entire costs of U.S. flag shipping, not just the differential above foreign flag costs. In time, USDA, however, would recover the shipping costs as P.L. 480 loans are repaid.

USDA has not implemented the PPSSCC recommendations as stated. Instead, USDA is experimenting with other cost-cutting program changes, such as chartering vessels for certain countries for specific periods of time rather than by individual voyage.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC based its estimate of savings in transportation costs on testimonial evidence of savings by other agencies using different procedures for programs other than Titles I and III of P.L. 480. Without additional information, GAO could not validate this estimate.

The estimate of savings in administrative costs is presumably based on the actual budgetary costs of the USDA unit recommended to be disbanded and, therefore, should be accurate. However, the estimate should be adjusted for any increased costs which AID would incur by assuming the monitoring functions.

V. RELEVANT GAO REPORTS

GAO/OCE-84-03 Economic Effects of Cargo Preference Laws (January 31, 1984)

VI. GAO CONTACT

Allan Mendelowitz 275-4812

I. PPSSCC ISSUE AND SAVINGS

"U.S. Department of Agriculture (USDA) should not be involved in P.L. 480 freight forwarding activities. An estimated $2.5 million annually, $8.2 million over three years can be saved by completely eliminating USDA's freight forwarding activities, transferring them to sponsoring agencies and to the private sector."

II. GAO ANALYSIS OF ISSUE AND RECOMMENDATIONS

Responsibility for arranging ocean transportation for P.L. 480, Title II commodities is split between USDA and private organizations, such as CARE, that use private freight forwarders. In prior work, GAO concluded that the performances of USDA and private freight forwarders were comparable.[1] The PPSSCC concluded that private freight forwarders do a better job than USDA with resulting cost savings. The PPSSCC, therefore, recommended the transfer of all freight forwarding responsibilities under the program to the private sector and disbandment of the currently involved USDA units. (Note: The major PPSSCC recommendation mistakenly refers to reassignment of all freight forwarding responsibilities under the (P.L. 480) "Title I" program. The recommendation should read "Title II").

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The recommendations can be implemented through Executive Branch action. USDA has accepted the recommendations and is in the process of implementing them.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC estimates annual savings at $2.5 million, of which $2 million would be in form of lower freight costs through more effective chartering by private sector freight forwarders. This estimate is reportedly based on one comparative analysis by a private freight forwarder. Details of this analysis are not specified.

In the GAO work mentioned above, a forwarder claimed comparable "savings" through rate negotiations. The savings claimed represented the difference between USDA estimated costs and the freight rates the forwarder was actually able to obtain. USDA estimates freight rates on the basis of published ocean freight tariffs filed with

[1] Managing the Transportation of U.S.-Donated Food to Developing Countries, GAO/ID-83-24, March 3, 1983.

the Federal Maritime Commission by carriers offering regularly scheduled liner service. These tariffs change frequently, are usually established by members of a shipping conference for the purpose of minimizing price competition, do not cover all types and larger amounts of cargo, and do not apply to unscheduled or "tramp" carriers. In short, the tariffs are "asking" rates, comparable to automobile "sticker" prices, and subject to negotiations. Thus, the entire amount of difference between these tariffs and actual rates paid should not be considered as savings. To the extent the PPSSCC estimate is based on the same methodology, it overstates potential savings.

The remainder of the estimated savings is presumably based on the budgetary savings resulting from the disbanding of the USDA unit responsible for this activity and, therefore, should be accurate.

V. RELEVANT GAO REPORTS

GAO/ID-83-24	Managing the Transportation of U.S.-Donated Food to Developing Countries (March 3, 1983)
GAO/PAD-82-31	Cargo Preference Requirements Add to Costs of Title II Food For Peace Programs (August 2, 1982)

VI. GAO CONTACT

Allan Mendelowitz 275-4812

AG 33: IMPROVE CREDIT EVALUATION PRACTICES

I. PPSSCC ISSUE AND SAVINGS

The Commodity Credit Corporation (CCC) and the Foreign Agricultural Service (FAS) should do more credit analysis in the implementation of CCC's Export Credit Guarantee Program (GSM-102). Savings cannot be measured but loan defaults may be avoided.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

Under the GSM-102 program, Agriculture guarantees repayment of bank loans to foreign entities for the purchase of U.S. agricultural commodities.

In principle the PPSSCC's recommendations to strengthen bank credit and country-risk analyses have merit from the standpoint of sound business practices. Government credit and guarantee programs, however, are not comparable to private sector financing and creditworthiness is not always the paramount consideration.

Recent worldwide economic/debt conditions and U.S. agricultural surpluses have led to a situation where CCC is deliberately taking more risks in the GSM-102 program. GSM-102 guarantees were an integral part of the U.S. Treasury-arranged balance of payments support packages for Mexico and Brazil. The justification for these guarantees was that they were necessary to maintain the Mexican and Brazilian markets for U.S. agricultural exports and the guarantees would also encourage other creditor countries to extend trade financing. In Mexico, CCC took an extra step of guaranteeing 100% of the principal and interest as opposed to its normal practice of covering only 98% of the principal and up to 8% of the interest because the commercial banks reportedly would not assume any of the risks involved. Overall, about $1.1 billion, or approximately 27%, of the fiscal year 1984 GSM-102 guarantees were extended to countries for balance of payments as well as market development purposes.

This does not mean that GSM-102 guarantees are extended without country-risk analysis or any consideration of creditworthiness. FAS analyzes the repayment potential of countries but, on a case-by-case basis creditworthiness is not always the determining factor. In sum, the recent purposeful use of CCC guarantees in some countries makes the PPSSCC recommendations less relevant than they might appear.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC recommendations could be implemented through Executive Branch action. It is doubtful, however, that Agriculture would implement changes which would make creditworthiness the determining factor in extending guarantees. In fact, FAS has not implemented the recommendations on the grounds that major portions are "impractical and programatically undesirable."

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

No savings are estimated. The anticipated benefits would come from the avoidance of loan defaults.

V. RELEVANT GAO REPORTS

None.

VI. GAO CONTACT

Allan Mendelowitz 275-4812

BANK 7: INTEREST RATE EXPOSURE

I. PPSSCC ISSUE AND SAVINGS

"Can the Export-Import Bank (Eximbank) reduce its exposure to interest rate fluctuations by better matching the maturities of its fixed-rate assets and liabilities?"

"While the impact of this exposure can be substantial, savings are not identified."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO reported in 1975 on Eximbank's practice of financing long-term loans, at fixed interest rates, with short-term borrowings.[1] As a result, Eximbank could not predict the ultimate costs of its funds and ran the risks of exposure to rising interest rates. GAO recommended that Eximbank adopt a goal of complete correlation of borrowing and lending repayment periods and work to achieve the goal as soon as practicable. The PPSSCC has recommended that the Eximbank take similar action and establish a more formal system for reviewing interest rates.

In principle the GAO and PPSSCC recommendations would, over the long run, help protect against losses due to rising interest rates and enable Eximbank to establish interest rates on its loans which more closely approximate its cost of funds. It should be noted, however, that an abrupt shift to longer term borrowings during a period of abnormally high interest rates would adversely affect costs and income.

Eximbank's authorizing legislation stipulates that it "shall consider its average cost of money as one factor in its determination of interest rates" but emphasizes that Eximbank export financing should be fully competitive with that of other countries. Congress strengthened this emphasis on competitiveness in 1983 amendments to Eximbank's authorization.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC recommendation could be implemented through Executive Branch action. Eximbank has moved toward implementation by lengthening the maturity terms of its borrowings. Eximbank management, however, has decided

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[1]Weakened Financial Condition of the Export-Import Bank of the United States, ID-76-17, October 17, 1975.

that complete correlation of borrowing and lending repayment periods is not warranted.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

Savings are not identified. Any savings would be determined by the future movement of interest rates.

V. RELEVANT GAO REPORTS

GAO/AFMD-84-48	Examination of the Financial Statements of the Export Import Bank of the United States for the Fiscal Year Ended Sept. 30, 1983 (April 26, 1984)
GAO/ID-81-48	To be Self-Sufficient or Competitive? Eximbank Needs Congressional Guidance (June 24, 1981)
GAO/ID-76-17	Weakened Financial Condition of the Export-Import Bank of the United States (October 19, 1975)

VI. GAO CONTACT

Allan Mendelowitz 275-4812

COMM 1 (A): ORGANIZATIONAL/FUNCTIONAL EFFICIENCY OF ITA

I. PPSSCC ISSUE AND SAVINGS

The export promotion efforts of the Department of Commerce's International Trade Administration (ITA) can be restructured to achieve a substantial gain in overall effectiveness, as follows: Integrate the functions of the Office of Trade Development (OTD) and the U.S. Commercial Service (USCS) into a single organization, structured on sectoral lines. PPSSCC estimated that staff could be reduced by 32 percent and that $68.3 million could be saved, in combination with Commerce 1(B), over the first 3 years.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

ITA's export expansion programs and activities are basically developed and carried out in three major organizational areas: Office of Trade Development, U.S. and Foreign Commercial Services, and International Economic Policy. Funding for these areas during fiscal year 1984 totaled about $122 million and provided for 1,820 personnel.

PPSSCC recommended that the functions of OTD and USCS be integrated into a single, headquarters-based organization which can target and counsel high-potential U.S. exporters via electronic communication from Washington. As part of this reorganization, USCS' 47 district offices would be phased out. According to the PPSSCC, this shift in focus to high-potential firms and industries would greatly improve the efficiency and quality of ITA's export-promotion services and substantially increase its results.

In 1984 GAO concluded a nationwide review of the export promotion activities of ITA's district offices and expects to issue a report to the Congress in early 1985. Based on this review, GAO believes there is merit to some aspects of PPSSCC's recommendation, especially that ITA's export promotion efforts be focused on U.S. firms and industry sectors having high potential for export. Commerce Department officials agree this action is needed and efforts have already begun in ITA to target those industries offering a high export potential, i.e., those capable of making an initial export shipment.

GAO noted that PPSSCC's definition of a high-potential industry or firm equates "high potential" with large dollar-volume exports, generally of $1 million or more. This definition does not coincide with ITA's fundamental objective--which has congressional approval--of encouraging small and medium-size firms to make an

initial export shipment. It cannot be assumed, as did PPSSCC, that because an initial export transaction is of low dollar-value that it is also low-potential. High-potential firms can and usually do begin with initial low dollar-volume sales and increase them graduallly through follow-on sales. Thus, it is not realistic to discount the contribution of small and medium-size firms to total U.S. exports. In fact, Commerce Department records show that, in the aggregate, small and medium-size firms consistently generate the growth in U.S. exports.

GAO also noted that PPSSCC, in developing its case that ITA should focus on firms and industries capable of high dollar-volume exports, used USCS performance statistics and reports. But based on its recent work and findings by the Commerce Department Inspector General,[1] GAO believes that USCS performance data are not sufficiently reliable to support the PPSSCC's overall conclusions--especially with respect to high value exports of $1 million or more reported by USCS as having been promoted by its field offices.

Reporting problems aside, GAO found that the district offices are an important delivery mechanism for export services and provide vital daily interaction with small and medium-size firms nationwide. Moreover, these offices provide a grass-roots link with the Foreign Commercial Service staffs at 124 posts in 68 countries where valuable market leads and export opportunities can be developed for potential U.S. exporters. And the district offices support and complement the export promotion activities of the state and local governments. The ability to carry out these functions would be greatly diminished or lost if the district offices were phased out as recommended.

PPSSCC's recommendation for centralized export-promotion services would, in GAO's opinion, shift ITA's program emphasis away from numerous small and medium-size firms to a relatively few firms having the greatest potential for high-value exports. These typically large firms are not the ones having the greatest need for ITA assistance because they generally possess in-house expertise, resources, and information on exporting and world markets.

Centralizing ITA's domestic export-promotion activities, as PPSSCC recommended, and relying on electronic communication with prospective exporters nationwide presumes a communications capability which the Commerce

[1]Problems Hamper Foreign Commercial Service's Progress, ID-83-10, October 18, 1982.

Department currently lacks. And even if immediate funding were available, the system could not be made operable in the immediate future. GAO also questions whether the field offices' supportive, frequently client-tailored services are functions which could be handled as effectively by electronic communication from Washington.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The delivery of export promotion services through USCS' district offices--essentially an outreach program to small and medium-size U.S. businesses--has strong congressional and constituent support. Moreover, the Congress is beginning to emphasize an additional feature: the federal program's importance in forging a stronger and more effective partnership with state and local government export-promoting organizations. Therefore, virtually complete elimination of USCS' district office-based outreach program to exporters could not be easily achieved. But if it were achieved, the fundamental purpose of the program as envisioned by the Congress, i.e., direct, localized interaction with and stimulation of export-capable firms, would be lost.

ITA has not implemented the PPSSCC recommendation on the basis that implementation would disrupt its ability to aid small and medium-size businesses to export.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

PPSSCC estimated that substantial savings could be realized from phasing out ITA's district offices and contacting export-capable firms throughout the nation via electronic communications from headquarters. But PPSSCC did not consider that Commerce Department lacks the electronic communications capability necessary to fully centralize ITA's domestic activities in Washington nor did it offset the cost of acquiring such capability. Commerce attempted to create this capability in 1979-81 with a system known as the Worldwide Information and Trade System. Projected costs were almost $50 million and, after less than 2 years' trial, Commerce concluded in early 1982 it was not cost effective. Based on its review and recent discussions with Commerce officials, GAO believes the costs of a nationwide electronic communications system at 1984-85 prices would probably equal the PPSSCC's estimated savings over the first 3 years.

Also, the savings estimate did not consider the fact that annual revenues of about $500,000, now being generated through the district offices' sales of export-related services, market data, and informational products, would be eliminated or greatly reduced under PPSSCC's recommended approach. In view of these substantial

offsets, GAO does not believe that the savings estimate is realistic.

V. RELEVANT GAO REPORTS

GAO/ID-83-21 GAO STAFF STUDY: Efforts to Promote Exports by Small, Non-Exporting Manufacturers (January 18, 1983)

VI. GAO CONTACT

Allan Mendelowitz 275-4812

COMM 1 (B): ORGANIZATIONAL/FUNCTIONAL EFFICIENCY OF ITA

I. PPSSCC ISSUE AND SAVINGS

The export promotion efforts of the Commerce Department's International Trade Administration (ITA) can be restructured to achieve a substantial gain in overall effectiveness, as follows: Integrate the functions of the Office of International Economic Policy (IEP) and the Foreign Commercial Service (FCS) into a single organization. The resulting reductions in FCS' overseas staff and organizational restructuring would be reflected in the overall $68.3 million savings discussed in Commerce 1(A), which PPSSCC estimated for ITA over the first 3 years.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The IEP, with over 200 employees and a budget of about $10 million, has responsibility within ITA for gathering information on country-specific trade matters in order to counsel U.S. firms on trade-related issues and to advise and assist government officials in trade policy matters and interactions with foreign governments and firms. The FCS has almost 700 American and non-U.S. employees posted in 68 countries in order to provide overseas marketing assistance to U.S. firms and to report market data and commercial intelligence. It functions as the overseas counterpart of ITA's domestic-based U.S. Commercial Service discussed separately under PPSSCC recommendation Commerce 1(A).

The PPSSCC recommendation to integrate the functions of IEP and FCS into a single organization, with substantial reductions in FCS overseas staffing, is based on the perception that (1) both are heavily involved in market data and commercial intelligence gathering and reporting and (2) high-potential trade promotion functions overseas can be accomplished effectively with fewer personnel assigned to those duties, even at the larger posts. PPSSCC claimed that much of FCS' overseas staff is engaged in marginally productive activities and is largely serving low export-potential U.S. firms.

The recommended IEP/FCS integration is philosophically compatible with ITA's emphasis on streamlined, effective commercial intelligence gathering and reporting and with many of its operational procedures for overseas activities. And GAO has expressed a similar view in prior recommendations to the Secretary of Commerce to reduce the administrative and routine reporting duties which limit FCS officers' time available for direct export promotion

effort.[1] Unlike the PPSSCC recommendation to reduce overseas staffing, GAO's recommendations were aimed at more efficient use of existing staff resources to aggressively pursue trade opportunities and improve commercial services for the U.S. business community.

A formal integration of IEP and FCS would further weaken organizational ties between the domestic Office of Trade Development/USCS and the FCS as overseas delivery arm for these programs. On the basis of its reviews of the Commerce Department's domestic and overseas export-promotion programs, GAO believes such integration together with heavily reduced staff could lead to (1) undue emphasis overseas on economic reporting and policy-related activities at the expense of export promotion and (2) substantially less assistance to small and medium-size firms.

In developing its rationale for reducing FCS' overseas staffing, PPSSCC correlated staffing levels with individual country imports of U.S. manufactured goods. This approach ignores both the importance of U.S. service sector exports (as opposed to manufactured goods) and the need for adequate levels of overseas staff to represent American industry, promote U.S. exports, seek solutions to trade problems and impediments, and furnish trade leads to potential U.S. exporters.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

ITA is already addressing certain elements of the PPSSCC recommendation by seeking to (1) minimize routine functions at FCS posts, (2) emphasize out-of-office visits and contacts to generate trade leads, and (3) target high export-potential industry sectors. Moreover, there is considerable congressional interest in the FCS and its potential, as a relatively new and revitalized commercial service, for impacting on U.S. exports. Thus a substantial reduction in its overseas presence and efforts would not be easily achieved at this stage.

ITA has not formally implemented the full PPSSCC recommendation on the grounds that total implementation would disrupt export services to small and medium-size firms.

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[1] Problems Hamper Foreign Commercial Service's Progress, ID-83-10, October 18, 1982.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

PPSSCC's proposed reduction of overseas FCS staff from 672 (175 U.S. and 497 non-U.S.) to 320 total employees does not indicate what the proportional cut would be between these two groups. This omission is important because it ignores distinct differences between salary levels and associated costs of U.S. and non-U.S. employees. Without more specific information, GAO has no basis to judge whether the savings estimate is realistic. GAO noted, however, that the savings estimate ignored the fact that, in many foreign countries where the FCS has posts, non-U.S. employees must be paid the equivalent of 1 or 2 years' salary if terminated. Thus the recommended reduction in overseas staff could generate substantial costs during the implementation phase.

The PPSSCC based its savings estimate on information provided by ITA and its own interviews and estimates. ITA questioned some of the cost factors used by PPSSCC.

V. RELEVANT GAO REPORTS

ID-83-10 Problems Hamper Foreign Commercial Service's Progress (October 18, 1982)

VI. GAO CONTACT

Allan Mendelowitz 275-4812

OSD 40 AND USER 10: FOREIGN MILITARY SALES

I. PPSSCC ISSUE AND SAVINGS

Can the Department of Defense (DOD) improve foreign military sales (FMS) program pricing policies so as to recover 100 percent of the cost of administering the program, as well as the cost of the products, as mandated by Congress?

Based on DOD audit service and GAO studies of the FMS program, PPSSCC estimated that DOD loses between $50 million to $150 million annually due to underpricing of FMS contracts. Assuming the mid-range, the PPSSCC concluded that revenue increases could be approximately $100 million in the first year, $110 million in the second year, and $121 million in the third year, for a total 3-year revenue of $331 million. PPSSCC believes these savings can be achieved by consolidating or centralizing certain pricing and financial management functions under the DOD comptroller.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

In past reviews of DOD's management of the FMS program, GAO has concluded that savings could be realized by improvements in a number of areas such as improved pricing practices, and full recovery of nonrecurring costs. In a report issued in May 1979, GAO recommended centralization of financial management as the best long-range solution to financial problems of the FMS program. Subsequently, however, GAO withdrew support of efforts to centralize FMS accounting and disbursing because (1) a 1982 DOD test--which GAO reviewed--found centralization would not be cost effective and (2) centralization would not affect most of the savings GAO had identified in its prior work. For example, GAO believes that substantial savings could be achieved through improved pricing procedures for secondary items sold from DOD inventories and expanded efforts to collect various charges, such as recovery of nonrecurring research and production costs, but these improvements would not require centralization of FMS disbursing and accounting functions by DOD.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

DOD has the authority to implement the PPSSCC recommendation. In February 1982, the Defense Security Assistance Agency (DSAA) completed a test of centralized disbursing and accounting for FMS procurement contracts that directly cite the FMS trust fund. Test results indicated that the principal benefit of centralizing disbursing at the Security Assistance Accounting Center (SAAC)

would be a reduction of what, under the current system, is known as a disbursing float. The disbursing float is the difference between the aggregate monthly FMS disbursements reported by the military departments to the Treasury and the FMS disbursements reported for the same period by military departments to SAAC.

The military departments, as part of the DSAA effort, reported that centralization would unnecessarily complicate cash management for remaining reimbursable transactions, create coordination problems in obtaining funding from two sources, and result in additional inventory accounting to segregate assets bought with FMS funds. Overall, the Department of Defense concluded that while centralization was feasible it was not cost effective.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

Cost data developed as part of the DOD test project indicated that implementing the centralization concept could increase FMS annual operating costs by as much as $169 million. Of this total, $159 million would be the Army's cost for the extra workload in processing procurements for secondary items, citing the FMS trust fund rather than Army funds. Of the remaining $10 million, $5 million would be the annual cost for SAAC's centralized disbursing and accounting functions, and $5 million would be the annual cost for Army, Navy, and Defense Logistics Agency functions that would be generated by centralization. DSAA concluded that the Army likely overestimated and SAAC probably underestimated costs. DSAA projected that centralization would increase FMS annual operating costs in the range of $50 million to $75 million in the first year. Based on the results of the test, and noting the deficiencies in the FMS financing system cited by GAO, DSAA concluded that

> "The benefits to be derived from centralization would not do much to resolve those deficiencies, and thus did not justify the additional workload and expense that would be incurred throughout the Department of Defense in order to implement the centralization concept."

GAO concurs with the DSAA cost analysis and believes it is unlikely the savings cited by the PPSSCC can be achieved through implementing the centralization concept. GAO still believes, however, that these savings are achievable by implementing other needed improvements in the FMS program, such as pricing procedures and cash management.

V. RELEVANT GAO REPORTS

GAO/AFMD-81-105	Defense Continues to Subsidize Sales of Secondary Items to Foreign Governments Because of Poor Pricing Policy (October 5,1981)
GAO/AFMD-81-62	Millions in Losses Continue on Defense Stock Fund Sales to Foreign Customers (September 10, 1981)
GAO/FGMS-79-36	Efforts to Charge for Using Government-Owned Assets for Foreign Military Sales: Marked Improvements But Additional Action Needed (June 1, 1979)
GAO/FGMS-79-33	Centralization: Best Long-Range Solution to Financial Management Problems of the Foreign Military Sales Programs (May 17, 1979)

VI. GAO CONTACT

Joan McCabe 275-4128

STATE 3: OFFICE OF FOREIGN BUILDINGS

I. PPSSCC ISSUE AND SAVINGS

What cost saving opportunities exist in the areas of responsibility of the Office of Foreign Buildings (FBO) which has a budget authority of $190 million for fiscal year 1983?

The PPSSCC did not quantify specific savings opportunities in this area. It did indicate, however, that savings should be significant with the implementation of a real property management system.

II. GAO ANALYSIS OF ISSUES AND ASSOCIATED RECOMMENDATIONS

Based on GAO's work, there appears to be a firm basis for the PPSSCC's recommendations. GAO has issued several reports supporting the PPSSCC's position that the Department of State needs to improve its management of overseas real estate. In fact, since 1963 GAO has repeatedly reported problems in State's real property management at foreign locations. Although State has generally agreed with the thrust of GAO's individual recommendations, including the latest GAO report in 1981, we generally found that problems continued. Beginning in 1983, the State Department began working on a new property management system.

The PPSSCC made five recommendations for real estate management overseas. These were to (1) develop a real property management system, (2) expand the cost accumulation system and report, (3) consolidate fiscal authority for all real estate expenditures in the Office of Foreign Buildings, (4) develop procedures to identify excess property, and (5) fully allocate all operating and maintenance costs to using agencies.

Problems identified by the PPSSCC were noted by GAO in a 1981 report (ID-81-15) dealing with State's management of overseas real estate. GAO recommended, among other things, that State (1) accelerate FBO development of an integrated property management information system, (2) maintain records that will identify all costs related to property management, (3) consolidate budgeting and control authority for real estate funds within FBO, and (4) establish criteria to identify and dispose of excess or uneconomical property.

III. GAO ASSESSMENT OF IMPLEMENTATION, AUTHORITY, FEASIBILITY, AND STATUS

Our assessment of information provided by the Department of State indicates the agency agreed with the PPSSCC's findings and has taken steps to overcome problems identified in the PPSSCC report as well as in past GAO

reports. In particular, during the summer of 1984, State installed the first phase of its new real property management system. Installation of the system at the first test post (Paris) was completed in September 1984, and it is expected to be installed in about 12 posts during fiscal year 1985.

Successful implementation of State's new real property management system would, to a large extent, address problems in four of the five deficient areas identified by the PPSSCC concerning property management. The fifth area dealing with the consolidation of fiscal authority for property management is still under discussion within State and would require congressional concurrence. The Department has prepared a consolidation plan and is now working out implementation details.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

As pointed out in Section I, the PPSSCC did not quantify savings that might accrue from improved management of overseas real property. GAO agrees with the PPSSCC, however, that the establishment of a comprehensive, integrated real property management system should provide State with more reliable information on which to make decisions concerning overseas real estate which could result in cost savings to the government.

V. RELEVANT GAO REPORTS

GAO/ID-81-15 Much More Can Be Done By The State Department To Improve Overseas Real Estate Management (Febreuary 9, 1981)

GAO/ID-78-16 The Department of State Has Continuing Problems In Managing Real Estate Overseas (July 12, 1978)

VI. GAO CONTACT

Joan McCabe 275-4128

STATE 5: DEPARTMENT OF STATE, BUREAU FOR REFUGEE PROGRAM

I. PPSSCC ISSUE AND SAVINGS

PPSSCC recommended various changes to the Refugee Transportation Loan Program's procedures in order to maximize the collection rate. The PPSSCC expected its recommendations to result in savings and accelerated collections of approximately $22.9 million in the first year, $21.5 million in the second year, and $20.2 million in the third year.

What modifications can be made in the management practices regarding monitoring the performance of voluntary agencies and international organizations? Although future savings were not determinable, the PPSSCC said that enhanced monitoring could reveal that various organizations were dispensing funds in ways that were not in the best interests of United States foreign policy.

II. GAO ANALYSIS OF ISSUE AND RECOMMENDATIONS

Refugees borrow federal funds through the Intergovernmental Committee for Migration (ICM) to cover part, or all, of their transportation costs to the United States. Under agreements with the Department of State and ICM, voluntary agencies are responsible for collecting loan repayments due from refugees and transferring these collections to revolving transportation loan accounts maintained by ICM. Each year, State augments these loan accounts with appropriated monies needed to cover new loans and other refugee transportation costs.

The PPSSCC concluded that the voluntary agency collection rate on refugee transportation loans was "low relative to private sector experience," and results in continual appropriations. The PPSSCC also raised concerns about (1) the effectiveness of voluntary agencies and international organizations in carrying out the transportation loan program, and the absence of a formal evaluation and monitoring process for measuring their effectiveness and (2) inadequacy of the federal government's ability to aggregate data on refugees' utilization of combined public assistance programs. It also noted that the State Department cannot provide voluntary agencies with up-to-date information on refugees' addresses and thereby assist them in their collection functions. To rectify these collection problems, the PPSSCC recommended that the Secretary of State should direct:

--an assessment of the voluntary agencies' ability to increase loan collections;

--establishment of a centrally managed collection activity within the Department of State;

--a change of regulations to obtain sponsor guarantees for refugee promissory notes; and

--application of funds for future transportation costs from loan receivable collections.

The PPSSCC also recommended that the Secretary of State (1) develop performance criteria for measuring the effectiveness of voluntary agencies and international organizations and, (2) request funding for a computer system which will integrate pertinent data on all refugee public assistance programs.

GAO believes that refugee loan collection rates can and should be improved and that all PPSSCC concerns about collection problems have merit. However, the PPSSCC recommendations, if implemented independent of other actions, will not significantly improve the voluntary agencies' collection rate. In an ongoing review of the refugee transportation loan programs, GAO has found that refugees do not repay their loans primarily because repayment is not enforced and no penalty is established for nonpayment. GAO believes that before the voluntary agencies' collection rate can experience marked improvement, refugees' loan repayment obligations must be reinforced and refugees must be aware of specific consequences for nonpayment. In the ongoing review, GAO is developing proposed changes in the transportation loan program to address these root problems.

GAO has analyzed neither the probable costs involved in implementing the PPSSCC's recommendations nor their potential benefits when, and if, they are fully implemented. However, GAO agrees in principle that State should continually strive to improve its management of the program.

III. ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC's recommendations can be implemented through executive actions. Further, GAO found that State, through its normal program implementation, has responded positively to management's need for assessing voluntary agencies' ability to increase loan collections, and establishing performance criteria for voluntary agencies' activities.

Furthermore, GAO believes that the proposals for State to develop a centrally managed collection activity, and a computerized tracking system are feasible. Currently, State is inquiring about the availability of computerized refugee data, including addresses, from the Immigration and Naturalization Service's data system.

The PPSSCC's recommendation that performance criteria be developed for international organization activities will be constrained by State's lack of authority to review the books and records of such organizations. Also PPSSCC's proposed program change calling for refugee sponsors to guaranteerepayment of loans would require a significant policy change involving who would be entitled to admission into the United States as a refugee. State believes that a person's admission to the U.S. as a refugee should not be influenced by the financial standing of that person's sponsor--usually members of their family. GAO believes that useful implementation of these recommendations does not appear feasible until appropriate international agreements are obtained and U.S.policy on refugee admission is changed.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC estimated that savings of about $65 million would materialize from their recommendations. The PPSSCC assumed that refugee transportation loans can be equated with private sector loans and therefore, should have a minimum annual repayment rate of 21.7 percent.

The PPSSCC's assumption is not completely valid in GAO's view. GAO believes that until refugee loan repayment obligations are made legally enforceable and refugees are fully aware of the consequences of nonpayment, refugee transportation loans cannot be equated or considered parallel to U.S. private sector loans, and thus the savings estimates appear to be high. Currently, a high percentage of refugees holding loans with outstanding balances are ignoring billings received from voluntary agencies. GAO also believes that savings can be achieved when State can enforce loan repayments and refugees can be accurately tracked for billing purposes.

V. RELEVANT GAO REPORTS

GAO/NSIAD-84-106 Central American Refugees: Regional Conditions and Prospects and Potential Impact on the United States (July 20, 1984)

GAO/NSIAD-84-35	Oversight of State Department's Refugee Reception and Placement Program (Sept. 30, 1983)
GAO/HRD-83-85	Greater Emphasis on Early Employment and Better Monitoring Needed in Indochinese Refugee Resettlement Program (March 1, 1983)
GAO/ID-83-2	International Assistance to Refugees in Africa Can Be Improved (December 29, 1982)

VI. GAO CONTACT

Joseph Kelley 275-5790

STATE 10: EVALUATION PROCEDURES

I. PPSSCC ISSUE AND SAVINGS

What opportunities for cost savings exist at the United States Information Agency (USIA) where FY 1983 appropriations exceed $588 million and are estimated to exceed $828 million for FY 1984?

The PPSSCC did not quantify potential savings. The PPSSCC explained that such savings would depend on the results of USIA's evaluation of the Agency's planned expansion, which include (1) increasing grants for exchange of persons activities, (2) modernizing facilities of the Voice of America, and (3) expanding programs and staff at the overseas missions. The PPSSCC report added that the deferral of the expansion by one or more years would result in cost reduction in each budget year until the expenditures are made.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO agrees with the PPSSCC recommendations calling for USIA (1) to establish an analytical resource capability within the Agency to regularly evaluate USIA programs and (2) to defer planned expansions until evaluation of existing activities can be completed. In developing its findings, the PPSSCC drew on information published in various GAO reports.

In a 1982 report (ID-82-1), GAO noted that USIA needed to better evaluate the results of its communication practices at overseas missions. Specifically, GAO pointed out that the Agency's country plans contained issues to be addressed that were too broad and did not set forth any measurable goals to be achieved. The report also noted that the overseas communication environment had changed while USIA's programs and staffing patterns basically had remained the same at each post. GAO recommended that the Agency reassess communication methods at each mission and discontinue programming those methods that were not needed.

In another 1982 report (ID-82-37), GAO reported that the Voice of America (VOA), the operating arm of USIA's Broadcast Services section, had given little consideration to long-range planning for its technical facilities. GAO recommended that these modernization projects be delayed until VOA established a comprehensive long-range plan.

III. GAO ASSESSMENT OF IMPLEMENTATION, AUTHORITY, FEASIBILITY, AND STATUS

In GAO's opinion, USIA actions to date in response to the PPSSCC's findings have been positive. USIA has the authority to implement the PPSSCC recommendations and has

taken some action to do so. In particular in fiscal year 1984, the Agency administratively established a Resource Management Committee, composed of senior management officials, to provide the USIA Director with evaluations and recommendations regarding major Agency proposals. With respect to planned program expansions, USIA states that the 1983-84 agency budgets reflect a realistic level of expansion with some implementation deferred to outyears.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC did not quantify potential savings in this particular area. GAO believes, however, that effective evaluation techniques could maximize the economy and efficiency of USIA's operations, lead to sounder judgements on Agency expansion, and possibly result in some cost avoidance.

V. RELEVANT GAO REPORTS

GAO/ID-82-37	The Voice of America Should Address Existing Problems To Ensure High Performance (July 28, 1982)
GAO/ID-82-1	U.S. International Communication Agency's Overseas Programs: Some More More Useful Than Others (February 11, 1982)

VI. GAO CONTACT

Joan McCabe 275-4128

BUS-INS 1: OPIC PURCHASE OF REINSURANCE

I. PPSSCC ISSUE AND SAVINGS

Should the practice of the Overseas Private Investment Corporation (OPIC) of purchasing reinsurance on its inconvertibility and expropriation risks be curtailed? PPSSCC recommended that OPIC phase out reinsurance of these risks as soon as possible, since it is expected to be more costly than self-insurance, but seek reinsurance of war risk on a short-term basis to determine if this private sector market can be developed at reasonable cost. PPSSCC estimated that $3.75 million could be saved annually by implementing this recommendation.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO agrees with the PPSSCC recommendation that OPIC phase out its purchase of reinsurance on its inconvertibility and expropriation risks as soon as possible, but disagrees that OPIC should seek to reinsure war risk on a short-term basis.

OPIC insures U.S. investors against political risks. It reinsures a portion of these risks with private underwriters. The reinsurance agreement that OPIC entered into in January 1984 for protection of catastrophic expropriation and inconvertibility (excluding war risk) losses was designed to ensure that OPIC, at reasonable cost, would be able to continue to operate on a self-sustaining basis without having to seek congressional appropriations or Treasury borrowings in the event of an unanticipated world catastrophe.

Section 237(c) of the Foreign Assistance Act of 1961, as amended, provides that the full faith and credit of the United States is pledged for the full payment and performance of obligations incurred by OPIC under its insurance and guaranty contracts. OPIC is required to maintain separate insurance and guaranty reserves to discharge respective liabilities incurred under these contracts. If claim settlements exceed available reserves and retained earnings, then OPIC would be required either to borrow funds from the U.S. Treasury or request supplemental funds from the Congress to pay the claims.

OPIC has returned the aggregate amount of $106 million appropriated to it, not used any of its $100 million borrowing authority, and maintained capital and reserves of $883 million at September 30, 1984. Existing reinsurance provisions would provide OPIC with a maximum annual benefit of $120 million if recurring unrecoverable losses of $300 million were to occur. OPIC has experienced no catastrophic

losses since its inception in 1969; cumulative unrecovered losses amount to $37 million. In these circumstances, it would appear to be more prudent to use the reinsurance premiums to build up OPIC's reserves than to reduce its exposure in the unlikely event of a world catastrophe.

The private sector currently does not offer war risk reinsurance. An OPIC official informed GAO that it is likely that the cost of such coverage, if a market could be developed, would be prohibitive. Also, according to an Arthur Young & Co. study OPIC's reserves are considered to be adequate for all but the worst world scenarios.

III. GAO ASSESSMENT OF IMPLEMENTATION, AUTHORITY, FEASIBILITY, AND STATUS

OPIC can implement the PPSSCC recommendation by terminating its reinsurance agreement. No legislation is required.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC's savings estimate is based on a gradual phase-out of existing reinsurance contracts with premiums valued at $5-6 million annually, reduced by a 50 percent projected loss rate due to claims. Although $6.1 million was spent for inconvertibility and expropriation risk reinsurance premiums in fiscal year 1983, premiums were reduced to $3.75 million annually for the three years commencing January 1, 1984. The reduced premium is attributable to a change in reinsurance coverage which limits recoverability to 60 percent of catastrophic losses, i.e., those ranging between $100-300 million. Consequently, the expected net "savings" from curtailment of the existing reinsurance agreement, assuming no claims losses exceeding $100 million, would be $3.75 million annually.

It should be pointed out that this "savings" would be used to increase the equity of this wholly-owned government corporation to protect against future claims. It would not reduce the federal deficit or have any budgetary impact.

V. RELEVANT GAO REPORTS

GAO/AFMD-85-25	Examination Of The Overseas Private Investment Corporation's Financial Statements for The Year Ended September 30, 1984 and 1983 (January 1985)

GAO/AFMD-84-28	Examination Of The Overseas Private Investment Corporation's Financial Statements For The Year Ended September 30, 1983 and 1982 (December 30, 1983)
GAO/ID-83-40	Examination Of The Overseas Private Investment Corporation's Financial Statements For The Fiscal Years Ended September 30, 1982 and 1981 (May 6, 1983)
GAO/ID-82-33	Examination Of Fiscal Year 1981 Overseas Private Investment Corporation Financial Statements And Related Issues (August 16, 1982)

VI. GAO CONTACT

Joseph Kelley 275-5790

BUS-INS 2: ADEQUACY OF OPIC RESERVES

I. PPSSCC ISSUE AND SAVINGS

Are the insurance reserves carried by the Overseas Private Investment Corporation (OPIC) sufficient in the event of a catastrophic loss? The PPSSCC recommended that OPIC increase its insurance reserve by $170 million (to $700 million) to reduce the probability of having to seek additional appropriations to cover large political and war risk claims. The PPSSCC also recommended that OPIC reduce its war risk exposure by setting country and regional coverage limits, increasing rates, and seeking partial reinsurance. Further, the PPSSCC recommended that OPIC consider carrying out an in-depth analysis of its reserve position.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

Available evidence suggests that OPIC's insurance and guaranty reserves are sufficient for all but the most adverse political and economic climate. An Arthur Young & Co. study, completed in May 1983, concluded that short of a truly catastrophic chain of world events, OPIC's insurance programs would continue to be financially viable. The study projected that OPIC reserves would continue to expand even if claims become triple the rate of OPIC's five worst claims years. In addition, GAO concluded[1] in 1981 that OPIC's combined reserves of then $644 million were adequate to discharge obligations arising from its estimated maximum exposure of $3.3 billion. As of September 30, 1984, OPIC's reserves had increased by $181 million to $825 million ($673 million for insurance and $152 million for guarantees) while its estimated maximum exposure had increased by $0.1 billion (or less than the reserve increase) to $3.4 billion. Therefore, GAO does not agree with the PPSSCC's recommendation that OPIC needs to increase its insurance reserve.

The Corporation's war risk exposure is of the same magnitude and balanced concentration as the other risks it insures. Its average war risk exposure in the five most heavily insured countries was 6.4 percent of worldwide exposure in 1983, down from 9.3 percent in 1978; this is roughly equivalent to its inconvertibility and expropriation exposure. Furthermore, the Congress has established limits of insurance that the Corporation is permitted to have outstanding with any single investor. The Corporation is well within these limits. Therefore, with current reserves of $825 million considered adequate for all but the worst world

[1] Examination Of Fiscal Year 1981 Overseas Private Investment Corporation Financial Statements And Related Issues (ID-82-33, Aug. 16, 1982)

scenarios and with net income and reserves rising at a far faster pace than claims, GAO does not feel it is necessary for OPIC to set war risk coverage limits to increase its rates for war risk coverage or seek reinsurance for this type of exposure.

As discussed above, the Corporation carried out an in-depth analysis of its reserve position through Arthur Young & Co. in 1983. This study concluded that OPIC's reserves were adequate and provided a model for future determinations of reserve adequacy. Thus, GAO considers that action has been completed on this recommendation.

III. GAO ASSESSMENT OF IMPLEMENTATION, AUTHORITY, FEASIBILITY, AND STATUS

OPIC has the authority to implement PPSSCC's recommendations. If OPIC were to increase its insurance reserve in an amount greater than what it could transfer from retained earnings, it would have to seek congressional appropriations or Treasury borrowings to do so. OPIC has no such plans, nor does GAO feel such action is warranted.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC estimated no savings for this issue.

V. RELEVANT GAO REPORTS

GAO/AFMD-85-25	Examination Of The Overseas Private Investment Corporation's Financial Statements For The Year Ended September 30, 1984 and 1983 (Jan. 1985)
GAO/AFMD-84-28	Examination Of The Overseas Private Investment Corporation's Financial Statements For The Years Ended September 30, 1983 and 1982 (Dec. 30, 1983)
GAO/ID-83-40	Examination Of The Overseas Private Investment Corporation's Financial Statements For The Years Ended September 30, 1982 and 1981 (May 6, 1983)
GAO/ID-82-33	Examination of Fiscal Year 1981 Overseas Private Investment Corporation Financial Statements and Related Issues (Aug. 16, 1982)

VI. GAO CONTACT

Joseph Kelley 275-5790

OSD 8, PROC 13, AND ARMY 19: CONSOLIDATION OF BASE SUPPORT OPERATIONS

I. PPSSCC ISSUE AND SAVINGS

It is feasible to consolidate many base-support activities. DOD should require the services to participate in the Defense Retail Interservice Support (DRIS) program in order to do so.

PPSSCC estimates that annual savings in the range of $100 million to $500 million are feasible.

II. GAO ANALYSIS OF ISSUES AND ASSOCIATED RECOMMENDATIONS

Military installations support themselves with over 100 categories of support services, including such things as civilian personnel, finance and accounting, police, custodial, fire, and real property maintenance services. These services cost about $18 billion per year, of which about 60 percent is military and civilian personnel costs.

The need for reducing base operations support costs has been documented in GAO reports and testimony. DOD bases and supply depots are stationed around the world, often close to one another.

PPSSCC concluded that DOD efforts to date to achieve major savings had not been successful, largely because of service resistance to losing control over resources. To address these problems, PPSSCC recommended that DOD

--require all base commanders to participate in the DRIS program;

--establish a timetable of not more than 2 years for completion of all interservice consolidation opportunities already identified by the DRIS program;

--perform prototype studies on potential base support consolidation candidates;

--require the DRIS program staff to develop a rigid schedule to implement, within 5 years, all base support consolidation candidates proven feasible by the prototype studies;

--establish a Defense Facilities Group to relieve the tactical commander of day-to-day responsibilities for the facility;

--make the Defense Facilities Group responsible for developing a consolidation plan;

--conduct an economic review of the contracting out of certain services; and

--establish milestones for base support budget reductions.

GAO agrees with PPSSCC on the need to consolidate base support operations and believes these recommendations provide a reasonable approach for moving DOD toward its stated goal of reducing base operations support costs. PPSSCC recognizes, as does GAO, that strong management emphasis is necessary to overcome service resistance, which has long been an obstacle to significant savings. PPSSCC's recommendations generally reflect those presented by GAO in both reports and testimony.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

These recommendations are feasible and incorporate the goals of DOD's base support cost reduction programs. The Secretary of Defense has the authority to implement the recommendations.

IV. GAO ANALYSIS OF SAVINGS ESTIMATES

The PPSSCC savings estimates are reasonable. PPSSCC used GAO's June 1982 testimony figures as a range of potential savings but did not state precisely how it had arrived at its own figures.

V. RELEVANT GAO REPORTS

Testimony	Consolidation of Base Support Services by Werner Grosshans, Procurement, Logistics, and Readiness Division, before the Subcommittee on Legislation and National Security, House Committee on Government Operations. (June 22, 1982)
GAO/LCD-80-92	Consolidating Military Base Support Services Could Save Billions (September 5, 1980)

VI. GAO CONTACT

H. Connor 275-4141

OSD 4: MAINTENANCE DEPOT CONSOLIDATION

I. PPSSCC ISSUE AND SAVINGS

DOD should consolidate depot-level maintenance facilities and management functions where there are opportunities for increased efficiencies and cost reductions.

Based on DOD data, potential operational savings from consolidation of depot-level maintenance are estimated at approximately $50 million. A one-time savings of $300 million to $400 million is possible due to a reduction in specialized maintenance equipment that would not be needed if maintenance functions were consolidated. Interest savings on this equipment would be about $35 million per year.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

PPSSCC recommended that DOD (1) establish a timetable for the consolidation of depot-level maintenance functions where there are opportunities for savings, and (2) require strict adherence to DOD Handbook 7220.29 H and DOD Instruction 4151.15 so that uniform cost accounting systems are used to generate necessary data.

GAO concurs with PPSSCC's recommendations which are consistent with prior GAO reports and recommendations.

GAO has proposed the consolidation of depot maintenance within the Department of Defense. A July 12, 1978 report, GAO/LCD-78-406, identified a significant degree of excess depot maintenance capacity and proposed that a centralized or single manager be established within the Department of Defense to stop waste by making appropriate consolidations. GAO testified before the House Government Operations Subcommittee on Legislation and National Security in March 1983 that excess aircraft depot maintenance continued to exist and that service actions had not addressed this problem.

GAO has also identified problems with service implementation of DOD Handbook 7220.29H and DOD Instruction 4151.15 dealing with cost accounting and work load distributions. GAO has informed the Congress that the services are not consistently applying 4151.15 to calculate depot maintenance capacity and data inputs to 72220.29H, to track depot maintenance costs, have been inaccurate. Service implementation of these guidelines is needed to assure that depots are properly managed.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The recommendations could be implemented through executive action. It would require the Secretary of Defense to develop and implement a plan to consolidate maintenance facilities and management functions. However, GAO is not optimistic that consolidations will be made without the commitment and leadership of the Secretary of Defense.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The facilities and equipment at aeronautical depots alone are valued at almost $7 billion, and DOD plans to spend billions more for their modernization. It appears reasonable to expect that consolidation could result in a 3-year savings potential of the general magnitude projected by PPSSCC. In fact, GAO testified before the House Government Operations Committee, Subcommittee on Legislation and National Security, that as much as 42 million direct labor-hours of excess physical capacity exists at the aeronautical depots and that DOD could save an estimated $100 million in annual operating expenses by consolidation of duplicate and excess capabilities. This figure could be even higher depending on the degree of actual consolidation and whether these actions resulted in any base closures.

V. RELEVANT GAO REPORTS

Testimony	Department of Defense Opportunities to Achieve Savings by Improving the Management of Aircraft Depot Maintenance, by Werner Grosshans, Procurement, Logistics, and Readiness Division, before the Subcommittee on Legislation and National Security, House Committee on Government Operations. (March 8, 1983)
GAO/LCD-78-406	Aircraft Depot Maintenance: A Single Manager Is Needed To Stop Waste (July 12, 1978)

VI. GAO CONTACT

H. Connor 275-4141

OSD 5: WHOLESALE DEPOT CONSOLIDATION

I. PPSSCC ISSUE AND SAVINGS

The Department of Defense (DOD) should develop and implement a plan for wholesale depot consolidation using the prototype system in the recent Wholesale Interservice Depot Support (WIDS) study as a model. Also, the existing warehouse reporting system should be improved to provide more accurate warehouse physical capacity information and better measure of warehouse productivity.

Implementation of the PPSSCC recommendation would eliminate the DLA depots at Columbus, Ohio; Richmond, Virginia; Memphis, Tennessee; and Ogden, Utah.

Net operating and transportation cost savings of $115.5 million were projected for a 3-year period.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

Every recent study of the DOD wholesale depot system has recognized the existence of excess capacity and the need for consolidation of depots. This need was recognized in GAO's evaluation (GAO/LCD-79-227) of the 1979 American Management Systems, Inc. (AMS) study of the realignment of DOD's material distribution system. This study was referenced in the PPSSCC report, to support its conclusion that there is a need for consolidation. GAO's report pointed out that the AMS study was too narrow in scope to constitute a comprehensive study of the Defense distribution system because it considered closure of only DLA depots. GAO believes a comprehensive study should consider which depots could best serve the needs of all customers, regardless of ownership.

While there is little doubt the PPSSCC recommendation to close four DLA depots could be implemented with resulting savings, GAO is not sure that the resulting system would be optimum and believes a more comprehensive study is needed.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO believes the PPSSCC recommendation could be implemented through executive action. However, DOD officials have resisted the large scale closure of DLA depots in the past. Military service officials have also resisted the closure of service-owned depots. In view of the reluctance of defense components to close any of their depots, GAO believes a comprehensive consolidation may only be accomplished if directed by legislative action.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

On the basis of GAO's analysis of the AMS study, which recommended closure of four DLA depots including those at Ogden and Columbus, GAO believes the estimates of annual savings to be reasonable. However, the estimated one-time costs to close the depots may be understated. AMS estimated the cost of closing Ogden and Columbus at about $30 million. PPSSCC estimated the cost of closing these depots, plus the depots at Richmond and Memphis, at only $50 million. Since the depots at Richmond and Memphis are larger, we believe the cost of closing them should be somewhat higher.

V. LIST OF REFERENCED GAO REPORTS

GAO/LCD-79-227 Realignment of DOD's Material Distribution System (Aug. 8, 1979)

VI. GAO CONTACT

H. Connor 275-4141

OSD 9, CONG 01-01: BASE REALIGNMENT AND CLOSURES

I. PPSSCC ISSUES AND SAVINGS

PPSSCC stated that the Department of Defense should recommend and Congress should concur with an aggressive program to close or realign a significant number of military bases in the United States. PPSSCC further stated that while the subject is politically painful to pursue, the need for vigorous action is clear. Because of the deep-seated resistance that springs up to oppose any specific candidate for closure, PPSSCC recommended that an umbrella approach be taken. Two alternative approaches were suggested for consideration:

--The President should appoint an independent commission to make a comprehensive study of the base realignment problem; or

--DOD should declare all bases as candidates for closure, give appropriate notice to Congress and the public, and commence the requisite studies.

PPSSCC estimates annual savings of $2.0 billion, and believes that this savings estimate is a conservative goal, based on information in previous DOD and Office of Management and Budget (OMB) analyses.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATION

Of the numerous military installations now being maintained in the United States, GAO believes that some could be closed--or their activities phased down--without affecting military preparedness. GAO sees no problems with the PPSSCC's recommendation that the President appoint a commission to study such closings.

GAO does not, however, agree with the PPSSCC's alternative approach whereby DOD would declare all bases candidates for closure and would begin preparing environmental impact statements as required by the National Environmental Policy Act. This suggestion appears inconsistent with the PPSSCC's recognition (elsewhere in the report) that: "Environmental impact statements can be very expensive, often costing $100,000 to $1 million to perform and can take months and sometimes years to finalize." Since it is not reasonable to expect that all installations could be closed, a universal canvass of all bases could waste both manpower and budgetary resources.

III. GAO ASSESSMENT OF IMPLEMENTATION, AUTHORITY, FEASIBILITY, AND STATUS

Implementing the PPSSCC's proposals would require executive branch initiatives and Congressional notification of closure action. Either the Secretary of Defense would have to identify all bases to be closed and develop a plan to consolidate their activities, or the President would have to appoint a commission to study and recommend bases for closure.

PPSSCC noted that base realignments and closures have been minimal since the mid-1970s, as the services became more reluctant to agree to changes and as the Congress enacted legislation requiring its oversight to both base closures and realignment decisions. Such legislation includes 10 U.S.C. 2687, which requires advance notification and justification of such decisions to Congressional committees in certain circumstances.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

PPSSCC provided no details as to how the estimated 3-year savings of $2.7 billion was arrived at. While GAO agrees that the potential savings from closing of DOD bases is theoretically large, the amount of potential savings from the PPSSCC proposal cannot be calculated or assessed by GAO.

V. LIST OF RELEVANT GAO REPORTS

GAO/PLRD-82-11	Planned Realignment of Fort Indiantown Gap, Pennsylvania (October 21, 1982)
GAO/PLRD-81-15	Slow Progress in Developing the Capability to Supply Troops Adequately If Fixed Parts Are Not Available for Modern Transport Ships and Tankers (December 1, 1980)
GAO/LCD-80-104	Changes in DOD's Base Structure From 1957 to 1978 (September 11, 1980)
GAO/LCD-80-11	Modernizing the Air Forces--More Emphasis on Logistics Support Needed (November 6, 1979)

VI. GAO CONTACT

H. Connor 275-4141

I. PPSSCC ISSUE AND SAVINGS

PPSSCC recommended that DOD modernize its automated data processing (ADP) system for inventory management and control. Additionally, PPSSCC recommended that new ADP systems should be compatible across services and should be centralized through an ADP logistics policy group. The same recommendations appear in three different volumes of PPSSCC's reports. PPSSCC estimates that its proposals would save $13 billion to $14 billion over 3 years. The savings would result from inventory reductions and other management improvements. PPSSCC has indicated, however, that this estimate is overstated by at least $6 billion because of double counting. Also PPSSCC calls for DOD to invest $1.4 billion over 4 years in new inventory management systems to accomplish these savings. However, it is not clear what goods or services would be purchased with the $1.4 billion.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO generally agrees with the PPSSCC recommendations that deal with the need for improved asset management at the wholesale and retail levels. GAO has issued a number of reports which address these needs. With respect to the PPSSCC recommendation concerning the need to expedite modernization of ADP systems, GAO believes that a decision to implement the recommendation should be in conjunction with consideration of other related problems. In testimony before the Senate Armed Services Committee on the level of computerization in DOD for the procurement of spare parts, GAO testified that (1) computer equipment is or soon will be technologically current; (2) computer software programs, with one exception, are logically and technically outdated; (3) computer-based information provided officials for buying aircraft engine spare parts is limited; and (4) computer capabilities being used to identify and prevent unwarranted price increase range from limited to none. In reports GAO/NSIAD-83-48, GAO/PLRD-82-22, GAO/PLRD-82-12, and GAO/PLRD-82-26, GAO pointed out that inaccurate and outdated data as well as the lack of adequately trained personnel were primary contributors to insufficient inventory management and control. GAO believes these problems need to be corrected in conjunction with DOD's investment in modernized ADP equipment and facilities.

GAO has not examined whether ADP systems should be compatible across the services or the need for a central ADP logistics policy group. Therefore it has no basis to comment on the PPSSCC recommendation.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

To modernize the ADP system and bring it up to private sector standards, DOD would have to adopt the program and include it in the budget. Congressional action would then be required to authorize and appropriate the funds. Under Public Law 97-86, purchase of ADP equipment for routine administrative and business purposes, including logistics, is not exempted from the requirements of the Brooks Act (40 U.S.C. 759). The Brooks Act requires that an annual ADP acquisition report be filed with the Office of Management and Budget and the Congress by any federal agency purchasing computer equipment, unless it is to be used for intelligence and related purposes or is an integral part of a weapon system or military or intelligence mission.

DOD could establish a central ADP logistics policy group through executive action.

IV. GAO ANALYSIS OF SAVINGS ESTIMATES

PPSSCC did not provide sufficient data to validate its estimated savings. If the $13 billion to $14 billion savings estimated by PPSSCC would result, the savings would likely occur more slowly than the 3 to 4 years PPSSCC projects. For example, an attempt to modernize logistics systems at Wright Patterson Air Force Base is estimated to take more than 4 years to validate requirements, design the system, and begin the selection process for the hardware. Considerable additional time would be required to prepare the software and transition the software to the new hardware. Thus, only after more than 4 years of added costs could any savings begin to occur.

V. RELEVANT GAO REPORTS

GAO/IMTEC-84-7	Air Force Progress in Implementing the Phase IV Base Level Computer Replacement Program (Jan. 18, 1984)
Testimony	Department of Defense Spare Parts Procurement Practices, by Warren G. Reed, Information Management and Technology Division, before the Senate Committee on Armed Services (Oct. 26, 1983)
GAO/NSIAD-83-48	Navy Logistics Data Base Problems Need Increased Management Attention (Aug. 19, 1983)

GAO/PLRD-82-22	More Credibility Needed in Air Force Requirements Determination Process (January 7, 1982)
GAO/PLRD-82-26	The Aviation Supply Office Continues to Have Problems With the Accuracy of Its Requirements Determinations (December 29, 1981)
GAO/PLRD-82-12	The Services Should Improve Their Processes for Determining Requirements for Supplies and Spare Parts (November 30, 1981)

VI. GAO CONTACT

H. Connor 275-4141

ARMY 13: MANAGEMENT OF WAR RESERVES

I. PPSSCC ISSUE AND SAVINGS

The Army can reduce its investment in war reserves through increased reliance on commercial sources.

PPSSCC estimates that a $4.2 million one-time savings could be realized through inventory reductions. Reduced purchasing levels would mean some additional annual savings of $0.54 million, or $1.78 million over 3 years.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The basic recommendations were as follows:

--Restrict major commands' ability to add items that have been identified as commercially available to the War Reserve Stockage List.

--Pursue vendor stocking of perishable items.

--Couple war reserve stockpiles more tightly with industrial preparedness planning.

--Upgrade the Army's inventory reporting systems so that management-level summaries of funds invested in war reserves are reported alongside achieved readiness levels.

All these, except for the last one, have merit in that they support reduced investment in war reserve stocks through increased reliance on commercial sources.

GAO is not convinced of the merit or benefit to be gained from reporting funding levels alongside achieved readiness levels as recommended by Army 13-4 because the methodology to link funding to readiness has yet to be developed.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

These recommendations could be implemented by executive action. The military services would need to place added emphasis on existing regulations/directives applicable to development of the War Reserve Stockage List and industrial preparedness planning.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

PPSSCC estimated 3-year savings of $6 million is based on very general assumptions. It first estimated

the percentage of the dollar investment by type of commodity in the war reserve inventory which represented commercially available items. This ranged from 0 percent for subsistence items to 25 percent for packaged petroleum, oil, and lubricants. PPSSCC then applied a range of inventory reductions of from 1.5 to 15 percent which it said is not unusual in the private sector from increased attention by management to inventory investments. Because of the general nature of these assumptions and the fact that GAO has not done any recent work in the area GAO cannot comment on the reasonableness of the estimated savings.

V. RELEVANT GAO REPORTS

GAO/PLRD-81-22 DOD's Industrial Preparedness Program Needs National Policy to Effectively Meet Emergency Needs (May 27, 1981)

VI. GAO CONTACT

H. Connor 275-4141

I. PPSSCC ISSUE AND SAVINGS

"Are present Navy plans and programs for improving supply and inventory management operations adequate to maximize performance and overcome critical deficiencies? Redirection of the Navy's current improvement efforts into a larger, multi-faceted, closely coordinated project would enable the Navy to derive significant additional benefits. Savings from lower inventory investment, reduced inventory losses and decreased personnel costs should approximate $1 billion over five years beginning in January 1986."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO agrees that improvements in Navy supply and inventory management operations could achieve significant benefits. Over the years, GAO has issued numerous reports identifying weaknesses in supply management. These weaknesses relate to such matters as requirements determinations, data base accuracy, and physical inventory controls. While the Navy has taken some corrective actions, further improvements are necessary.

The PPSSCC makes 18 recommendations to bring about supply management improvements. The difficulty with implementing these recommendations, however, is that while some are very specific (consider eliminating the ships manning document) most are quite general. For example, PPSSCC recommends that the Navy develop a plan for improved supply and inventory management for the 600 ship fleet but does not go into detail on what the plan should encompass.

On balance, however, the PPSSCC recommendations provide a good vehicle for making improvements in supply and inventory management.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

PPSSCC groups the 18 recommendations into four major topic areas (1) new policies and procedures, (2) work standards and strengthened management, (3) new computer systems and strengthened personnel, and (4) studies, including logistics plans to support a 600 ship fleet. In addition, PPSSCC recommended that a full-time management team be established to oversee implementation action. Improvements in

these areas are feasible and can be accommodated within the existing executive authority. Additional funding would be required for some of the improvements, such as the acquisition of new computers to strengthen stockpoint computer system support.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

PPSSCC states that the benefits from implementing the recommendations will be substantial; however, they are very difficult to estimate accurately in financial terms. Nevertheless, with the objective of establishing a financial goal, PPSSCC states that annual savings benefits should approximate $1 billion through reductions in inventory levels, inventory losses, personnel costs, and component purchasing costs over the five years beginning in January 1986.

GAO agrees that the financial benefits from implementing the PPSSCC recommendations should be substantial.

V. RELEVANT GAO REPORTS

GAO/NSIAD-84-150	Navy Can Improve Management of Nonaviation Depot-Level Repairable Spares (September 20, 1984)
GAO/NSIAD-84-9	Navy's Progress In Improving Physical Inventory Controls and The Magnitude, Causes, and Impact of Inventory Record Inaccuracies in the Army, Air Force, and Defense Logistics Agency (November 4, 1983)
GAO/NSIAD-83-48	Navy Logistics Data Base Problems Need Increased Management Attention (August 19, 1983)
GAO/PLRD-82-26	The Aviation Supply Office Continues to Have Problems with the Accuracy of Its Requirements Determinations (December 29, 1981)

VI. GAO CONTACT

John Landicho 275-6504

PROC 10 AND PROC 12: IMPROVED INVENTORY MANAGEMENT

I. PPSSCC ISSUE AND SAVINGS

PPSSCC believes that the use of the Economic Order Quantity (EOQ) system will enhance military readiness and minimize inventory costs. PPSSCC also advocates that the taking of "wall-to-wall" physical inventories will result in savings by highlighting theft and fraud.

PPSSCC estimates that these actions will result in 3-year savings of about $5 billion.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

PPSSCC made five recommendations concerning the issue identified in PROC-10 and two recommendations concerning the issue identified in PROC-12.

GAO generally agrees with the PPSSCC (PROC-10) recommendations dealing with

--eliminating the variations in the services' demand forecasting techniques (PROC 10-1),

--utilizing current and accurate carrying and procurement cost data for determining optimal inventory levels (PROC 10-2),

--establishing an essentiality coding system (PROC 10-4), and

--revising the rating criteria for item managers. (PROC 10-5).

GAO has issued several reports with recommendations similar to those shown above. For example, in the report GAO/PLRD-82-12, dated November 30, 1981, "The Services Should Improve Their Processes for Determining Requirements for Supplies and Spare Parts," GAO discussed the variations in the services' demand forecasting techniques and the need to achieve greater commonality and consistency in forecasting demands.

In another report, GAO/PLRD-81-30, dated June 5, 1981, "Better Investment Decisions Can Save Money at GSA and FAA," GAO discussed the need for using current and accurate inventory carrying and procurement cost data for determining optimal inventory levels. Although this report dealt with GSA and FAA, the same principle would apply to DOD. In two other reports, GAO/PLRD-81-52, dated August 10, 1981, "Logistics Managers Need to Consider Operational Readiness in Setting Safety Level Stocks," and GAO/PLRD-82-25, dated January 13, 1982, "Mission Item Essentiality: An Important

Management Tool for Making More Informed Logistics Decisions," GAO discussed how essentiality coding--relating the need for an item to the mission of the end item--could be used to enhance readiness, make better allocation of resources and help managers make better stockage decisions for those items that impair user operational capability.

With respect to the PPSSCC recommendation in PROC 10-5, GAO has not specifically addressed the need to revise the rating criteria for item managers. However, the essence of the recommendation--to use something other than the rate of filling requisitions as a measure of effectiveness--makes sense. In a report, GAO/PLRD-81-52, dated August 10, 1981, "Logistics Managers Need to Consider Operational Readiness in Setting Safety Level Stocks," GAO pointed out the conflicting objectives of inventory (item managers) and those responsible for maintaining a ready force. The objective of inventory managers is to maintain a high requisition fill rate. Thus, they try to ensure that they have a sufficient stock of items on hand which are most frequently requested. However, these type items are not the ones that necessarily cause significant equipment downtime which places the equipment in a non-operational ready status. GAO believes that the emphasis on inventory management should be on maintaining high equipment readiness rather than on maintaining high requisition fill rates.

GAO does not totally agree with the PPSSCC recommendation (PROC 10-3) that modernizing computer facilities will necessarily improve stock status accuracy and demand forecasting. Prior GAO reports (GAO/NSIAD-83-48, GAO/PLRD-82-22, and GAO/PLRD-82-20) have shown that before or as a part of DOD's investment in updated computer facilities and equipment, it needs to correct more immediate problems. More specifically, DOD needs to correct problems concerning the lack of current and accurate inventory data which is used to forecast demands. Furthermore, DOD needs to eliminate the differences among the services on how demands are forecasted.

GAO does not agree with PPSSCC recommendation (PROC-12-1) that DOD should initiate a program of "wall-to-wall" inventory taking on a periodic basis. GAO's recently completed DOD-wide review of physical inventory controls and adjustments showed that the frequency or types of physical inventories taken by DOD components were not the problem. Instead, the problem was that inventory record errors, revealed by physical counts, were not corrected because of erroneous reconciliations of physical inventory differences and improper reversals of physical inventory adjustments.

However, GAO believes that the PPSSCC recommendation (PROC 12-2) concerning DOD's Logistics Application of Automated Marking and Reading Symbols (LOGMARS)

implementation plan does have merit. GAO's observations of the use of LOGMARS on ammunition items showed that when fully implemented LOGMARS should improve inventory accountability.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

In GAO's view, the PPSSCC recommendations can be implemented by executive action. In fact, DOD has taken certain actions on several of the recommendations contained in PROC-10. For example, DOD is trying to define and develop a more uniform demand forecasting system for use by the services. It also recognizes the need for using current and accurate carrying and procurement cost data for optimizing EOQ inventory levels and has promoted the use of essentiality coding. Furthermore, DOD recognizes that effectiveness of item managers, in general, and more specifically the supply system, should be based on equipment operational ready rates rather than requisition fill rates.

DOD has no plans to take "wall-to-wall" inventories as recommended in PROC-12. However, its LOGMARS implementation plan is being implemented by the service components.

IV. ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC report does not provide sufficient detail to evaluate the reasonableness of the savings estimate. Our various reports have identified savings in many of the same areas; however, these savings related to a particular service or agency or to a particular aspect of inventory management.

V. RELEVANT GAO REPORTS

GAO/NSIAD-84-9	Navy's Progress in Improving Physical Inventory Controls and the Magnitude, Causes, and Impact of Inventory Record Inaccuracies in the Army, Air Force, and Defense Logistics Agency (November 4, 1983)
GAO/NSIAD-83-48	Navy Logistics Data Base Problems Need Increased Management Attention (August 19, 1983)
GAO/PLRD-81-30	Better Investment Decisions Can Save Money at GSA and FAA (June 5, 1981)
GAO/PLRD-82-22	More Credibility Needed in Air Force Requirements Determination Process (June 7, 1982)

GAO/PLRD-82-25	Mission Item Essentiality: An Important Management Tool for Making More Informed Logistics Decisions (January 13, 1982)
GAO/PLRD-82-26	The Aviation Supply Office Continues to Have Problems With the Accuracy of Its Requirements Determinations (December 29, 1981)
GAO/PLRD-82-12	The Services Should Improve Their Processes for Determining Requirements for Supplies for Spare Parts (November 30, 1981)
GAO/PLRD-81-52	Logistics Managers Need to Consider Operational Readiness in Setting Safety Level Stocks (August 10, 1981)

VI. GAO CONTACT

H. Connor 275-4141

OSD 3 AND PROC 17: TRANSFER OF CONSUMABLE INVENTORY ITEMS FROM THE MILITARY SERVICES TO DLA

I. PPSSCC ISSUE AND SAVINGS

DOD management of consumable supply items, such as minor spare parts which are either consumed in use or discarded when no longer serviceable, should be centralized in the Defense Logistics Agency (DLA) to improve management efficiency and achieve more economical operations. Consequently, the 900,000 consumable items managed by the military services should be transferred to DLA. Phased over an 18-month period these transfers would result in annual savings of $75 million. Savings would be attributable to personnel reductions from DLA's higher ratio of items per manager and increased competitive bidding on procurements.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO concurs with the thrust of PPSSCC's recommendation to transfer consumable items managed by the military services to DLA. However, GAO does not believe the resulting savings will be as large as those estimated by PPSSCC because all 900,000 items will not likely be transferred. Management of consumable supply items in DOD and the General Services Administration (GSA) is a subject of long-standing interest to GAO. In an earlier report (GAO/LCD-75-232) GAO commented on the duplicate management of consumable supply items and the need to establish one source of supply for all government users. In a more recent report (GAO/NSIAD-84-82) GAO evaluated the validity of a test transfer of 200,000 consumable supply items from the military services to DLA. GAO believes that screening of consumables against the new weapon system management sensitive criteria recently approved by DOD will preclude the transfer of all the items to DLA. The new weapons sensitive criteria identify items selectively because of their criticality to the readiness of the weapon/end item or to the mission performance and makes them subject to specialized management or controls.

Similarly, screening of consumables against the new weapon system management criteria will preclude the transfer of all 900,000 items on a fixed schedule as recommended by PPSSCC.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

In response to GAO's most recent report, DOD established an Integrated Materials Management Committee to provide a plan to implement agreed-to recommendations.

In August 1984, the committee published a DOD-approved implementation plan for application of new/revised item management coding criteria for consumable items. GAO generally agrees with the provisions of the implementation plan and sees no reason why it cannot be accomplished. DOD has already started actions to review items, although completion of all item reviews may ultimately take several years.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO agrees with PPSSCC that transfer of consumable supply items to DLA will result in annual savings. GAO also agrees with the manner in which PPSSCC estimated its savings; however, the amount of savings is not realistic and probably is overstated because these estimates assume that all 900,000 remaining items will be transferred to DLA. There is no way of knowing what percentage of the total items will migrate to DLA until all items are subjected to item management coding requirements in the implementation plan. It appears the number would be considerably less than 900,000. The annual savings will depend on the number of consumable items ultimately transferred.

V. RELEVANT GAO REPORTS

GAO/NSIAD-84-82	Test Transfer of Consumable Supply Items to the Defense Logistics Agency From the Military Services (March 28, 1984)
GAO/LCD-75-232	Status and Progress Toward Implementing a National Supply System (February 18, 1976)

VI. GAO CONTACT

H. Connor 275-4141

ARMY 20: COMBAT VEHICLE MAINTENANCE

I. PPSSCC ISSUE AND SAVINGS

The Department of the Army can (1) improve its ability to ascertain and report combat vehicle depot maintenance costs, such as those resulting from implementation of Reliability Centered Maintenance (RCM), (2) improve control of these costs, and (3) reduce these costs through the introduction of postproduction unit cost analysis reporting.

PPSSCC estimated that improvement of vehicle depot maintenance management could save $26.2 million over 3 years after allowing for implementation costs.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The Army decided to apply RCM to combat vehicles to improve depot overhaul vehicle selection and to avoid unnecessary overhauls. RCM replaces routinely scheduled depot maintenance with only that work being done which is determined necessary to retain safety and reliability.

GAO agrees with the PPSSCC recommendations that (1) the U.S. Army Material Development and Readiness Command/Depot System Command (DARCOM/DESCOM) should develop and publish regularly, in useful format, Postproduction Cost Analysis Reports with appropriate levels of detail for the various echelons of management and (2) Letterkenny and Anniston Army Depots should establish labor standards for at least 80 percent of eligible labor hours (equivalent staff-years). These recommendations are aimed at improving the effective and efficient implementation of RCM which includes higher visibility and increasing productivity goals while decreasing costs. The two PPSSCC recommendations are consistent with the intent of past GAO recommendations.

GAO believes, and the Army recognizes, that the implementation of improved combat vehicle depot maintenance practices, such as RCM, can save money. A valuable tool to help achieve the effective and efficient implementation of these practices would be an accurate data system designed to monitor, measure, report on, and provide feedback on the costs, changes in work volume, parts shortages, rework levels, etc., associated with the implementation. This system would also permit analyses aimed at reducing costs and would elevate visibility of the program's progress to high level Army officials.

After the completion of the first year's cycle for RCM in 1980, the Army reported that it would be developing a statistical data base to use in forecasting depot programs

and to assess cost savings. The Army projected that it should be in a position to make these kinds of evaluations by fiscal year 1983. According to PPSSCC, the Army is still not routinely reporting data to accomplish these purposes.

Another money-saving mechanism related to combat vehicle depot maintenance is the use of sound labor standards which would establish the pace for a more efficient depot work force.

In August 1980 GAO reported that productivity at U.S. Army combat vehicle depots could be increased and sizable savings realized if (1) problems related to estimating labor requirements on the basis of sound labor standards and work methods were alleviated and (2) the work measurement systems were fully implemented. A 1983 follow-up survey by GAO indicated that the Army still needs to do more to address these problems.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBIILTY, AND STATUS

GAO believes that adoption of PPSSCC's two recommendations is feasible and desirable. These recommendations can be implemented by the Army Materiel Command, formerly DARCOM, under existing authority.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

While the savings estimate of $26.2 million for the effective implementation of RCM made by PPSSCC appears reasonable, based on its figures and the size of the Army's total depot overhaul program, it is important to note that at least a portion of the $26.2 million is already being achieved by the ongoing RCM program. PPSSCC recognizes that its estimate includes the impact of RCM but states that the estimate also reflects an anticipated cost discipline that would result from the analysis and publication of the related data. Adoption of the two recommendations would likely add to the savings already being realized and included in the $26.2 million. Since the Army has not developed its statistical data base, as it reported that it would, to measure the savings generated by RCM, it is difficult to say precisely how much of the $26.2 million is already being saved by RCM and then to project potential savings above that amount.

V. RELEVANT GAO REPORTS

GAO/PLRD-81-20	Improved Work Measurement Program Would Increase DOD Productivity (June 8, 1981)

GAO/LCD-80-82	Significant Savings Possible Through More Efficient Depot Maintenance of Army Combat Vehicles (August 7, 1980)
GAO/PSAD-80-46	Military Standard on Work Measurement--A Way to Control Cost and Increase Productivity (June 3, 1980)

VI. GAO CONTACTS

H. Connor 275-4141

NAVY 10: AIRCRAFT OVERHAUL

I. PPSSCC ISSUE AND SAVINGS

PPSSCC proposes that Navy aircraft maintenance can be made more cost effective by changing overhaul service patterns to provide for less frequent airframe overhauls through the introduction of special inspection programs at the organizational level. PPSSCC estimated that the proposal would result in annual savings of $35 million and a return of 20 aircraft to the operational fleet. PPSSCC also stated that this is a conservative estimate since it is based on only two aircraft--the F-4 and F-14.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

To the extent that the Navy has not implemented the recommendation contained in GAO/LCD-77-432, GAO agrees with PPSSCC's recommendation to lengthen intervals between major depot overhauls for Navy aircraft. In the 1976-1977 time frame GAO concluded the Navy's interval between depot visits for its aircraft was chosen relatively arbitrarily and had remained fairly static. The interval was chosen soon after design of the aircraft, when very little reliability data is available, and it is slowly, if ever, changed. In contrast, Air Force planes are initially maintained under a program aimed at determining whether periodic depot work will be necessary and, if so, what the interval should be. GAO believes the Navy should also systematically review all aircraft maintenance intervals and adjust them based on the study results.

DOD concurred in the GAO conclusions and recommendations that a logical process for determination of the interval between maintenance should be used and that the implementation of a reliability centered maintenance concept (which through inspections and engineering studies a determination is made as to when a part should be repaired just prior to its failure) would foster this goal.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

PPSSCC's proposals could be implemented by the Secretary of Navy within existing authority.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO does not agree with the methodology used to estimate potential savings. PPSSCC compared maintenance costs and operations data from 3 airline cargo/passenger aircraft with similar data on 2 Navy fighter/bomber

aircraft. Given the vast differences in mode of operation and intended purposes of these aircraft, this is not a valid comparison. Nevertheless, GAO does believe implementation of the PPSSCC recommendation would lead to cost savings.

V. RELEVANT GAO REPORTS

GAO/LCD-77-432 The Navy Depot Level Aircraft Maintenance Program--Is There a Serious Backlog? (September 1, 1977)

VI. GAO CONTACT

H. Connor 275-4141

NAVY 13: AIRCRAFT POWER PLANT MAINTENANCE MANAGEMENT

I. PPSSCC ISSUE AND SAVINGS

The maintenance of the aircraft power plants at the depot level should conform to the state-of-the-art for similar activities in the air transport industry, and maintenance management practices and processes should be as effective as the industry's.

Savings of approximately $5 million annually are achievable at the Naval Air Rework Facility (NARF) in San Diego alone. Similar savings opportunities are probable at other NARFs.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

PPSSCC had a total of eight recommendations that were grouped under six categories. In most of these areas GAO believes that the PPSSCC recommendations have merit.

PPSSCC recommends that engine performance monitoring rather than specific intervals be used to determine when engines should be removed for maintenance. GAO has long advocated the removal of engines for maintenance based on condition rather than scheduled intervals. This maintenance concept would eliminate the overhaul of engines that have reached a certain cycle but whose condition does not require maintenance.

PPSSCC recommends that the reason for aircraft component removal be documented and that this documentation accompany the component to the overhaul depot. GAO agrees with this based on prior work in the area of Navy aircraft overhaul. Specifically, GAO found that the Navy identified a small inventory of components which represented a large percentage of the total overhaul costs. Documentation of maintenance by component serial number would help the services identify these problem components, so they could be taken out of use. Furthermore, documentation of last overhaul date and reasons for the current removal will help isolate repair needs and eventually overhaul costs.

PPSSCC found that the depots had a highly polarized and vertical structure which limits lateral communications and cooperation. In its work GAO has also identified a lack of communication and cooperation between the services on maintenance issues and has questioned the degree of communication and cooperation between the Navy aircraft depots. (PPSSCC did not make a specific recommendation to this finding.)

PPSSCC recommends that there be a closer monitoring of decisions made by examination and evaluation personnel regarding the depths of repair and the time allocated for repair. Also, PPSSCC recommended that daily reports of man-hour and material expenditures on engine overhauls need to be prepared. GAO has stressed the merits of accurate and timely management information systems. Without timely and accurate information, managers have little basis for making decisions that can help improve depot operations.

PPSSCC recommends that NARF efficiency be measured and work allocated to the depots on the basis of depot efficiency. Work standards need to be established to form the basis for determining the efficiency of the depots. GAO has found that a low percentage of maintenance actions have established work standards and that depot workload distribution is not based on depot efficiency. GAO has made similar recommendations that the Navy depots increase their use of engineered work standards as a means of improving depot efficiency. Moving workload around, however, may not be realistic since each depot already has an investment in facilities, equipment, and personnel that will be there whether the work is there or not. Also, in some instances, moving workload would involve moving workload from one coast to another, resulting in an increased transportation cost.

PPSSCC recommends that inventories be monitored and that excess and obsolete material be removed from the inventory system. GAO has questioned the lack of inventory visibility at the retail level. Consequently, users of an item have no way of knowing if other users have the item in supply at their installation. This may result in supply inventories excess to what is needed to satisfy demands. Also, it is logical that existing excess or obsolete inventories should not be kept in supply.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees that most of the recommendations are logical and can be implemented if given the appropriate attention by Navy headquarters and industrial installation officials.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

PPSSCC estimated annual savings of $5 million at the San Diego NARF was based on very general assumptions and therefore GAO cannot assess the reasonableness of the estimate.

V. RELEVANT GAO REPORTS

GAO/LCD-76-433 Management Action Needed in the Department of Defense to Realize Benefits From a New System of Aircraft Maintenance (November 10, 1976)

VI. GAO CONTACT

H. Connor 275-4141

ARMY 12: STORAGE OF INDUSTRIAL PLANT EQUIPMENT

I. PPSSCC ISSUE AND SAVINGS

Should the military spend millions each year to store and maintain idle production equipment that is largely obsolete?

Annually, $6.3 million could be saved and a one-time savings of $9.4 million could also be realized. Total 3-year savings would equal $30.2 million.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO agrees that millions are spent each year to store and maintain idle plant equipment that is largely obsolete. In a recent report (GAO/NSIAD-84-164), GAO looked at the management of DOD's general reserve of industrial plant equipment and found, as did the PPSSCC, that the average age of this equipment is well over 25 years; most of the equipment has been in storage and has not been used in years; and much of the equipment is obsolete.

GAO concurs with the three PPSSCC recommendations that would

--require users of the DOD general reserve of IPE to fund storage and repair cost;

--permit users to submit their requests to search the IPE inventory directly to the Defense Logistics Agency (DLA) Defense Industrial Plant Equipment Center (DIPEC) and to allow users to base their new versus used equipment decision on which has the lowest life cycle cost. If DIPEC cannot respond to search requests in two days, abolish the mandatory DIPEC screen.

--require an evaluation of the machines in the general
--reserve to determine which can be usefully saved and which could be scrapped or sold.

Implementation of the PPSSCC recommendations would, in GAO's opinion, cause users of the general reserve to purchase equipment that is lowest in cost to the DOD. Currently, since general reserve IPE is free to the user he chooses them over new machines more often then if he had to reimburse DIPEC for the storage and repair costs. As a result more old machinery with its associated costs is being used. Implementation of the recommendations would also save time and paperwork on requesting a search of the general reserve IPE inventory and keep only those machines in the general reserve that can be used.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY AND STATUS

The Defense Industrial Reserve Act Public Law 93-155 established a general reserve of industrial plant equipment and directs DOD to manage it. The Defense Logistics Agency's (DLA) Defense Industrial Plant Equipment Center (DIPEC) has the responsibility for carrying out the intent of the act. Thus, DOD has the authority to implement PPSSCC's paperwork and disposal recommendations. We note, however, that the Act does not provide explicit authority to charge users of the reserve for storage and repair cost.

In GAO's recent report (GAO/NSIAD-84-164), it was pointed out that in August 1984 DLA took certain actions to improve the management of the general reserve equipment. One of DLA actions requires DIPEC to dispose of unneeded equipment from the general reserve as the PPSSCC recommended. DLA also plans to look at the feasibility of implementing the other two PPSSCC recommendations.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

Although the PPSSCC savings estimate is based mostly on assumptions, the assumptions appear realistic. However, no mention is made of the costs the services would have to incur in procuring new equipment. Currently, repaired equipment from the general reserve is free to the user; the repair, overhaul and storage costs are all incurred in the DLA budget. The users budget does not bear the full cost of used equipment, even though it must bear the full cost of new equipment.

V. RELEVANT GAO REPORTS

GAO/NSIAD-84-164	DLA's Restructuring of the Industrial Plant Equipment General Reserve Will Improve Its Management, If Properly Implemented

VI. GAO CONTACT

Kenneth Coffey   275-5140

ARMY 14: AMMUNITION MANAGEMENT

I. PPSSCC ISSUE AND SAVINGS

The Army can save a significant amount of money by improving its management of conventional ammunition.

PPSSCC estimated that the Army could save $96.8 million the first year and $332 million over 3 years by implementing its recommendations.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

To improve management of conventional ammunition, PPSSCC recommended (1) providing the Conventional Ammunition Working Capital Fund with advance contract authority, (2) providing the Single Manager for Conventional Ammunition greater control over the ammunition managed, (3) using less expensive packaging for training ammunition, and (4) expediting contracting-out reviews at government-owned and government-operated ammunition plants.

GAO agrees that there are opportunities for substantial dollar savings by strengthening the role of the Single Manager and using less expensive packaging for small arms training ammunition. However, GAO believes there are questions as to whether advance contract authority is necessary to achieve additional savings and whether savings would result from contracting out the operations of two ammunition plants. GAO's analysis of these issues and associated recommendations is presented below.

The Conventional Ammunition Working Capital Fund was established on October 1, 1981. The purpose of the Fund was to achieve economies in the procurement of ammunition by allowing the consolidation of purchase orders for all the military services and reducing paperwork. Some savings have already been achieved. The Army managers of the Fund are considering a request to use contract authority to achieve additional benefits and savings. Contract authority would enable the Fund to purchase ammunition components in advance of receiving funded orders from the military services. In this way, it would offset delays in receipt of funded programs and result in accelerated obligations, thereby reducing the effects of inflation. However, use of contract authority could result in procuring unusable inventories for reasons such as changes in service requirements and congressional or agency budget reductions. GAO believes alternative approaches, such as earlier congressional appropriations, having the military services take greater advantage of

continuing resolutions, and quicker release of appropriated funds to the Single Manager, could probably accomplish the same objectives without the risks associated with contract authority.

In 1973 GAO recommended that DOD establish central control to improve ammunition logistics. The Secretary of the Army was designated Single Manager for Conventional Ammunition in 1975 and made responsible for acquisition and logistics functions for assigned items. Much progress has been made since then and substantial savings have been achieved. However, the services continued to retain significant control over procurement and production and major control over inventory management. For example, many items are not assigned to the Single Manager, he does not control all facility acquisition decisions, and his role in procurement is more nearly that of a buyer than a manager. GAO agrees with the PPSSCC that the Single Manager needs more control to provide efficient and economic inventory management. The results can be millions of dollars saved and a system capable of providing the intensive management which is essential during a war. Currently, control over ammunition management is fragmented between the Single Manager and the services. For example, each service continues to maintain its own inventory control points through which requisitions for conventional ammunition must flow. This adds 6 days to the time it takes to fill a requisition. Army officials have estimated that adding 6 additional days to the pipeline would require additional inventory investment of $200 million during a wartime environment. Attempts to lay the groundwork for eliminating this fragmented management have encountered stiff resistance from the services. The PPSSCC recommendation to provide the Single Manager greater control is basically a restatement of GAO's position in a 1979 report.

GAO also believes that the PPSSCC's recommendation on using less expensive packaging for training ammunition should also be implemented. In a 1981 report GAO concluded that the Department of Defense could save millions of dollars by using less expensive fiberboard containers and outer packs and by eliminating items, such as bandoliers, stripper clips, and loader adaptors, not used in training exercises. GAO recommended that all blank and live small arms training ammunition use less expensive packaging. PPSSCC cited this report and the Army's position on the report to support its recommendation.

The last area cited by PPSSCC to improve ammunition management was to convert the two government-operated ammunition plants (McAlester and Crane) to contractor operations. Another plant, Hawthorne, was contracted out

in 1980. PPSSCC believed savings were achieved at Hawthorne and the experience at Hawthorne was applicable to the larger McAlester and Crane plants. In 1981 GAO reported that the Army disregarded serious shortcomings in the contractor's proposal in making its cost comparison. As a result, it was questionable whether the Hawthorne conversion should have taken place.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

Advance contract authority cannot be provided to the Conventional Ammunition Working Capital Fund without congressional action. In this respect, the House Appropriations Committee report on the Department of Defense Appropriations for fiscal year 1984 (Report No. 98-427, Oct. 20, 1983, at p. 136) points out that additional improvements and experience under current procedures should be made before such a change could be justified.

Strengthening the role of the Single Manager could be implemented through executive action. However, efforts to expand the concept have encountered considerable resistance from the services.

The PPSSCC recommendation on less expensive packaging can be implemented through executive action. In commenting on GAO's August 1981 report, the Army agreed that all blank and 75 percent of the live training ammunition could receive less expensive packaging. The Army is making some changes to its fiscal year 1985 procurements to use less expensive packaging.

The PPSSCC recommendation to have the Army expedite contracting-out reviews for its two remaining ammunition plants operated by government personnel could be implemented by executive action. However, the Army has no actions under way or planned to study the possibility to make these conversions.

IV. ANALYSIS OF SAVINGS ESTIMATES

PPSSCC estimated that providing advance contract authority to the Conventional Ammunition Working Capital Fund would lead to savings estimated at $53.6 million a year during the first 3-year period. These estimated savings were based on the Single Manager's estimates of cost savings from advance contract authority. The Single Manager no longer supports the earlier cost estimates and is revising the estimates downward.

PPSSCC's estimate of $29.2 million annually in potential savings by strengthening the role of the Single Manager was based on the assumption that greater control would generate a 1 percent savings on the Single Manager's fiscal year 1983 budget of $2.92 billion. While GAO agrees that there is a potential for greater efficiency and economy in operations and stated so in GAO's 1979 report, GAO has no basis for assessing the reasonableness of the 1 percent savings assumption and therefore, the savings estimate.

Similarly, PPSSCC estimated that if the McAlester and Crane ammunition plants were converted to contractor operations, the Army could save about $14 million annually. This was based on the assumption that the Army saved money by converting the Hawthorne plant to contractor operations in 1980. In December 1984, the Army contracting officer for Hawthorne told GAO that the Army does not know whether or not the Hawthorne conversion resulted in savings.

GAO believes the PPSSCC's savings estimate for use of less expensive ammunition packaging is reasonable. In an August 18, 1981, report (GAO/PLRD-81-53), GAO recommended that all blank and live training ammunition use less expensive packaging and estimated the savings potential at $33 million. PPSSCC used this report and the Army's position that all blank and 75 percent of the live training ammunition could use less expensive packaging as the basis for its $20 million of savings estimate.

V. LIST OF RELEVANT GAO REPORTS

GAO/PLRD-81-53	DOD Can Save Millions by Using Less Expensive Packaging for Small Arms Training Ammunition (August 18, 1981)
GAO/PLRD-81-19	Factors Influencing DOD Decisions to Convert Activities From In-House to Contractor Performance (April 22, 1981)
GAO/LCD-80-1	Central Ammunition Management--A Goal Not Yet Achieved (November 26, 1979)
B-176139	Effective Central Control Could Improve DOD's Ammunition Logistics (December 6, 1973)

VI. GAO CONTACT

H. Connor 275-4141

NAVY 12: AIRCRAFT REWORK FACILITY ENGINEERING STAFFING

I. PPSSCC ISSUE AND SAVINGS

Is there a proper relationship between the staffing of the Navy aircraft maintenance engineering function and the degree of technical support required and provided to the Navy Aircraft Rework Facilities and to the Fleet?

The PPSSCC estimated that better defined staffing requirements could result in savings of approximately $10 million annually.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

This PPSSCC issue dealt with the size of the engineering staff at the six Naval Air Rework Facilities (NARFs). In comparing the size of the Navy's engineering staff to that of the U.S. commercial airlines, which PPSSCC asserts has similar responsibilities and geographic separations, PPSSCC concluded that the Navy's engineering service is overstaffed. PPSSCC recommended that the staffing level of NARF technical support organizations be thoroughly analyzed with the objective of reducing the manhours presently utilized (in-house and contractor).

Since GAO has not examined the NARF engineering function, we are not able to assess the validity of the PPSSCC comparison of NARFs to U.S. commercial airlines. However, differences in functions performed and the number, types, and variation of aircraft they deal with, and/or differences in frequency, required turnaround, or extent of maintenance could easily render such a comparison questionable and therefore such differences would have to be considered.

GAO recently completed a review of SHORSTAMPS (NSIAD 85-43) which was the Navy's program for determining shore manpower needs, including the manpower required at NARFs. GAO found that the projected workload parameter variables that are part of the SHORSTAMPS staffing equations are of questionable reliability. To the extent that this is true of the NARF engineering workload parameters, their manpower requirements are likely to be either overstated or understated. GAO recommended more rigorous application of the manpower standards and the implementation of controls and oversight.

In sum, while GAO agrees with the PPSSCC's recommendation of the need for more thorough analysis of NARF staffing levels, GAO is unable to validate their rationale for arriving at that recommendation. Previous GAO analyses provide no basis for confirming that there are excessive numbers of engineers at Navy NARFs.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The implementation authority for this recommendation lies within the Department of the Navy. GAO sees no basis for questioning the feasibility of analyzing NARF staffing.

In December 1983, the Navy reconstituted its manpower requirements determination processes under an umbrella program called Navy Management Engineering Program (NAVMEP). This new program has established a target date of January 1986, for having 100 percent of shore functions subject to manpower standards or guides. Thus, although the Navy plans to review staffing at NARFs as well as other operations, the depth and rigor of such a review is uncertain at this time.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO has no basis for determining if the PPSSCC estimate of savings is realistic.

V. RELEVANT GAO REPORTS

GAO/NSIAD 85-43	Navy Manpower Management: Continuing Problems Impair the Credibility of Shore Establishment Requirements (In Process)
GAO/FPCD 80-29	The Navy's Shore Requirements, Standards, and Manpower Planning System (SHORSTAMPS)--Does the Navy Really Want It? (February 7, 1980)

VI. GAO CONTACT

Kenneth J. Coffey 275-5140

OSD 38: FREIGHT BILL AUDIT

I. PPSSCC ISSUE AND SAVINGS

Since DOD is the largest government procurer of commercial transportation services, the audit function for its freight bills should be delegated by the General Services Administration (GSA) to DOD. DOD should then contract out the audit function to the private sector whenever practicable. Any amounts that are recovered due to freight bill overcharges or duplicate payments should be credited to the budgets of the offices which procured the transportation services, in order to provide better incentives for diligent audit of carrier rating errors, duplicate billing, and classification errors.

PPSSCC estimates annual savings of $53 million based on increased freight claim recovery ($50 million) and reduction of GSA staff and redistribution of personnel to the transportation-procuring agencies ($3 million). In addition, it estimates a one-time savings of $72 million from auditing the existing backlog of freight bills.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO agrees with the basic thrust of the PPSSCC findings and its recommendation, but not with the dollar savings estimates.

The federal government has long recognized the potential for freight cost recovery. Until 1975, transportation invoice audit was performed by GAO. In 1975, transportation invoice audit was transferred to GSA. Initially, GSA had over 1,000 people assigned to the audit functions. However, successive budget reductions have reduced the GSA audit staff to under 200 people.

GAO has found that the government has long had problems in keeping its transportation audit current and ensuring that it is done effectively. However, recent GSA initiatives appear to have reversed the trend of declining effectiveness. Through hiring a few more administrative staff, working overtime, and contracting out part of the workload, GSA is recovering significantly more in overcharges than has long been the case. Productivity indicators have shown improvements. Cost-benefit ratios have improved.

Yet, some problems remain. The audit is as far behind as it has been since the years immediately following World War II, when the backlog was nearly 3 years. Some payments now are not being audited for 22 months. The average payment is not being audited for 18 months. Such delays are costing the government $5 million a year.

GSA's problems raise questions about the relative advantages of having GSA perform the audit or having the procuring agencies perform the audit. The last government study in this area was in 1972. It recommended no change in audit reponsibilities, but it left open the possibility if computerized rate audit became available or the audit could be integrated in the shipping, billing, and payment processes. Full computerization has not been achieved, but since DOD has now expressed a willingness to perform the audit function, integration of the audit now appears more feasible. Key changes would relate to decentralization of the audit, greater use of commercial audit firms, and use of prepayment audits.

GAO notes that this PPSSCC recommendation is similar to its TTM 4 (Transportation Audit) recommendations. The TTM-4 recommendations addressed the audit of all government transportation payments, not just those of DOD.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GSA and DOD can carry out the PPSSCC recommendation without any changes in statutory authority. In October 1984, GSA and DOD began to develop a plan for carrying out this recommendation. Its status is unclear, but preliminary plans are for implementation in the October-December 1985 timeframe. GAO has a draft report in process on this issue and is working with both agencies on this matter.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO does not agree with the PPSSCC savings figures. PPSSCC based its estimate on the premise that the government spends $7 billion a year for commercial transportation and that DOD represents about 80 percent of that. GAO records show that DOD spent only about $1.5 billion in fiscal year 1983 ($526 million for government bill of lading freight shipments and $855 million for government bill of lading personal effects shipments). Assuming a 2-percent recovery rate, savings would be about $30 million annually.

The 2-percent overcharge recovery rate was based on discussions with people who audit commercial accounts. The 1983 figures showed GSA's recovery rate to be 0.81 percent. GAO does not know if the transfer of audit responsibility would increase the recovery rate as assumed by PPSSCC.

GAO's 1984 audit showed that GSA's audit backlog is costing the government about $5 million a year. In addition, there are some bills not being audited, but GAO does not know the loss resulting from this lack of audit.

V. RELEVANT GAO REPORTS

GAO/NSIAD-85- Changes in Transportation Audit Would Yield Even Greater Benefits to the Government (forthcoming).

VI. GAO CONTACT

H. Connor 275-4141

EX 3 AND USAF 16: SPARE PARTS BREAKOUT

I. PPSSCC ISSUE AND SAVINGS

Can the Army, Navy, Air Force and Marine Corps realize significant savings by intensifying the breakout program to increase competitive procurement of spare parts?

An estimated 3-year savings potential of $1,374.9 million is indicated.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The spare parts breakout program refers to the effort to either compete acquisitions or purchase directly from the contractor that actually manufactures the part. Successful breakout of a part generally means acquisition of the part from a contractor other than the prime contractor,[1] unless the prime contractor actually manufactured the part.

Opportunities for breakout are only being achieved to a limited extent. This is borne out by GAO's report, Air Force Breakout Efforts Are Ineffective (GAO/PLRD-83-82, June 1, 1983), and the Air Force Management Analysis Group's (AFMAG) report on "Spare Parts Acquisition", dated October 1983. The latter report was issued by a DOD organization. Both reports indicated substantial opportunities for breakout and/or competition that are not being achieved. The AFMAG report states that, dollarwise, the Air Force procures about 21 percent of its spare parts competitively. Ten years earlier, a comparable competition rate in the Air Force was about 37.5 percent.

Available data show that in FY 1982 the Army and Navy procured, respectively, 46 percent and less than 16 percent of their spare parts on a competitive basis. A DOD Inspector General report, dated May 1984, indicated that there were numerous procurements that were overpriced because they were not purchased (a) from the actual manufacturer or (b) competitively. Specific PPSSCC recommendations are discussed below.

PPSSCC recommended (USAF 16-1) that Air Force Systems Command should establish a formal process during the weapons system acquisition phase to obtain the reprocurement engineering/technical data before the system is

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[1]The prime contractor is an individual or firm that has been awarded a contract directly by a government agency for supplies and/or services.

transferred to the Air Force Logistics Command.[2] This would allow the Logistics Command to expand the high-dollar spare parts breakout program without excessive costs and delays.

In the past, technical data packages needed for reprocurement were often not obtained. Instead, technical data packages (TDP) were obtained primarily to facilitate maintenance of the item within the military service. These latter TDPs often included markings that claimed the data was proprietary to the contractor and explicitly limited the government's ability to use such TDPs for reprocurement. Experience has indicated that the time to negotiate for unlimited rights in technical data is during the weapons acquisition phase when the government has greater leverage in dealing with contractors.

GAO agrees that obtaining reprocurement data as early as possible would facilitate and increase opportunities for breakout. Coupled with this is a recognized (by DOD) need to better manage, review, store, and distribute as needed the data already received by services.

PPSSCC also recommended (USAF 16-2) that two breakout methods[3] can be employed, based on technical and economic feasibility, to determine whether spare parts may be reprocured from other than the prime contractor. PPSSCC indicated that these breakout methods are well known and effective and that increased usage is what is needed. GAO agrees with the Commission's recommendation since our recent examination and report (GAO/NSIAD-84-36) reached similar conclusions.

PPSSCC further recommended (USAF 16-3) that the Office of the Secretary of Defense should recommend changes in section 9 of Defense Acquisition Regulation in order to modify the restrictive and complex language regarding technical data rights. GAO agrees that improvements are desirable to the regulatory coverage on technical data rights especially where data was developed by a combination of government and contractor contribution.

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[2]Air Force Logistics Command is an organization that is responsible for supply management and procurement of spare parts after acquisition of major weapons. It includes a group of 5 spare parts buying organizations called Air Logistics Centers (ALC).

[3]First method: Competitively purchasing spare parts which previously had been purchased noncompetitively.

Second method: Purchasing spare parts directly from actual manufacturers rather than from prime contractors which are not actual manufacturers.

III. ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

We believe that almost all aspects of the PPSSCC's proposal are practical and can be implemented within existing executive branch authority.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

While GAO agrees that there are opportunities for greater competition in the procurement of spare parts, GAO has not performed work sufficient to comment on the PPSSCC's statement that an additional 15 percent of the spare parts dollars could be competed or at least procured from the actual manufacturer and that a 30 percent savings on average is achievable.

V. RELEVANT GAO REPORTS

GAO/NSIAD-84-36	Logistics Support Costs for the B-1B Aircraft Can Be Reduced (September 20, 1984)
GAO/PLRD-83-82	Air Force Breakout Efforts Are Ineffective (June 1, 1983)

VI. GAO CONTACT

Paul Math 275-4587

OSD 20: INCREASE USE OF COMMON PARTS AND STANDARDS IN WEAPON SYSTEMS

I. PPSSCC ISSUE AND SAVINGS

PPSSCC proposes that DOD increase its use of common hardware components, subsystems, and other parts in order to reduce the costs of major weapons systems. In addition, PPSSCC recommends greater use of parts and equipment designed to meet commercial standards, rather than solely military standards and specifications (MILSPECS).

PPSSCC's estimated net savings of $7.3 billion over 3 years assumes a 4.8-percent across-the-board reduction in all weapon systems costs.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

Defense and industry specialists generally agree that the only effective way to restrain the proliferation of new, unessential parts and associated costs is to standardize parts at the time new equipment is designed. GAO agrees with the PPSSCC's recommendations to (1) have DOD provide seed money as front-end funding to carry out cross-service military hardware design standardization, (2) encourage contractors to challenge unnecessary requirements, and (3) reduce the use of MILSPECS.

A 1970 report by the House Committee on Government Operations (H. Rept. 91-1-718) took a slightly different approach and suggested that incentives be developed to encourage contractors to use preferred items through positive and negative reward clauses included in the contracts. GAO, in its report GAO/LCD-79-403, dated March 15, 1979, reported that DOD's parts control programs which are intended to achieve standardization objectives were mandated for use on all major weapon system acquisition programs. However, application of the standardization technique was left out of many new design and development contracts or the standardization techniques were tailored to the point that few standardization benefits were derived.

GAO agrees with PPSSCC's recommendation that use of MILSPECS in certain contracts should be challenged. Contractors should be encouraged to challenge the requirement for military specifications if the particular end item or component procured does not appear to warrant the use of applicable MILSPECS. Indiscriminate use of specifications can result in excessive acquisition costs.

PPSSCC also concluded that the decreased use of lower tier (covering parts, pieces and small subsystems of major items) MILSPECS is a way to encourage more firms to bid on defense contracts. Among other things, with the greater use of industry standards to build military hardware, less specialized tooling would be required to produce defense materials. PPSSCC believes this action would widen the defense industrial base and might increase competition among contractors. DOD believes, however, that further use of commercial parts and standards might decrease military readiness. In DOD's view, MILSPECS promote standardized quality for parts and components, encourage emerging technologies, and ensure that each new weapon will meet the perceived threat for which it was designed.

GAO agrees with the issues raised by PPSSCC that only those MILSPECS that relate especially to the particular needs of the end item being procured should be involved. These kinds of needs would be defined as the peculiar military requirements which could not be satisfied with the commercial or industry standard item. GAO believes, however, that, in many cases, MILSPECS will need to be specified in lower tiers to ensure that the end item meets certain rigid specifications. GAO is also concerned that making lower tier specifications simply reference documents will hinder implementation of the PPSSCC recommendation which calls for DOD to further standardize equipment for the intended purpose of reducing costs and improving performance, reliability, and maintainability.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC proposals could be implemented by the Secretary of Defense within existing authority. In 1978 and 1979, DOD parts control programs were mandated for use on all major weapon system acquisitions, and more recently DOD's Acquisition Improvement Program of 1981 (the so-called Carlucci Initiatives) emphasized the role of the services in identifying candidate programs, for common parts and standard operational systems, early in the acquisition process.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

PPSSCC's estimated savings of $7.3 billion over 3 years assumes a 4.8-percent across-the-board reduction in all weapon systems costs. This has been offset by annual implementation costs of approximately $100 million. Neither PPSSCC's report nor the staff has provided data with which to assess the validity of the assertion that the 4.8-percent reduction is possible.

V. RELEVANT GAO REPORTS

GAO/NSIAD-84-22	Joint Major System Acquisition by the Military Services: An Elusive Strategy (December 23, 1983)
GAO/LCD-80-30	Increased Standardization Would Reduce Costs of Ground Support Equipment for Military Aircraft (February 7, 1980)
GAO/LCD-79-403	Fragmented Management Delays Centralized Federal Cataloging and Standardization of 5 Million Supply Items (March 15, 1979)
GAO/PSAD-78-105	Management of the Development and Procurement of Airborne Electronics Equipment (Avionics) by the DOD (May 12, 1978)
GAO/PSAD-77-171	Government Specifications for Commercial Products--Necessary or a Wasted Effort? (November 3, 1977)
GAO/LCD-75-420	Effective Item Entry Control in the Complex Government Supply System Can Reduce Costs (November 20, 1975)

IV. GAO CONTACT

H. Connor 275-4141

OSD 14 AND CONG 03-6: HOUSEHOLD GOODS MOVES TO ALASKA AND HAWAII

I. PPSSCC ISSUE AND SAVINGS

Competitive bidding procedures should be expanded to include household goods moves to Alaska and Hawaii.

PPSSCC reported that introduction of competition into the rate setting process on moves to Alaska and Hawaii would save DOD $19 million a year. Another $2 million a year in reduced claims could be achieved by packing shipments to Alaska the same as other overseas shipments are packed.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

PPSSCC noted that since 1976, DOD has solicited competitive bids for the international movement of the household effects of its military personnel. Prior to 1976, all household goods carriers meeting the lowest price offered were allowed to share equally in the traffic; therefore, there was no incentive to bid a low rate.

PPSSCC also noted that DOD attempted to expand competitive bidding for Alaska and Hawaii in 1977. Initial bids received were more than 20 percent lower than those previously offered. However, restrictive language was included in the DOD Appropriations Act for 1978--and in subsequent bills--which precluded introduction of competition on moves to Alaska and Hawaii.

PPSSCC recommended (OSD 14-1) that DOD seek legislation which will permit the extension of the international competitive rate program to Alaska and Hawaii. PPSSCC also recommended (OSD 14-2) that DOD require that household goods moved to Alaska by sea be packaged in the same manner as all other overseas shipments of household goods.

GAO supports competition in the setting of transportation rates to the maximum extent feasible. In a report dated May 6, 1976, GAO concluded that DOD should introduce more competition into its procedures for setting rates for international household goods shipments. However, GAO cannot presently comment on whether the international rate setting procedure should apply to Alaska and Hawaii because it has done no work in this area.

Similarly, since GAO has not done any work on the way household goods are shipped to Alaska it cannot comment on PPSSCC recommendation OSD 14-2.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

As recognized by PPSSCC the recommendation to extend the international competitive rate program to Alaska and Hawaii would require legislation. Congressional delegations from these states and their constituents have taken the position and the Congress has agreed that applying free market principles to the movement of household goods would adversely affect the states' economies. They maintain that shipments to Hawaii and Alaska should be treated no differently than shipments between the other 48 states.

The recommendation to require that household goods moved to Alaska by sea be packaged in the same manner as all other overseas shipments could be accomplished by executive action.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

PPSSCC's estimate of savings to be achieved by introducing the international competitive rate program to Alaska and Hawaii was arrived at by applying the average percentage reductions achieved in the 1977 competitive proposal to the projected cost of moving household goods to these two locations in fiscal year 1983. Because of the age of the rate reduction percentages used, GAO cannot comment on the reasonableness of the PPSSCC estimate.

PPSSCC did not provide sufficient information for GAO to assess the estimate of savings to be realized through a reduction in claims.

V. RELEVANT GAO REPORTS

GAO/LCD-76-225 Adoption of a Single Method of Shipping Household Goods Overseas--Pros and Cons (May 6, 1976)

VI. GAO CONTACT

H. Connor 275-4141

OSD 10: UNIFICATION OF TRAFFIC MANAGEMENT

I. PPSSCC ISSUE AND SAVINGS

DOD should seek legislation that would permit it to establish a single traffic management agency within the Military Traffic Management Command (MTMC) that would be responsible for the surface and air traffic management functions currently vested in the Military Sealift Command (MSC), the Military Airlift Command (MAC), and MTMC. The responsibility for the actual transportation equipment and its operation would remain with MSC, MAC, and MTMC. The new traffic management agency would be responsible solely for traffic management and coordination.

Consolidation, according to PPSSCC, is expected to result in $66 million savings over the first 3 years of the new agency's operations. Savings are based on improved operating efficiency.

An additional $20 million one-time savings is believed attainable because the improved efficiency would allow DOD to cut down on materiel inventory for overseas activities.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

Military traffic management is administered by MTMC, MSC, and MAC. Under the current system, operators of the DOD transportation resources make decisions on whether to use these resources or whether to contract for the services in the marketplace.

Currently, MTMC coordinates land transportation, except for container movements, and operates military ocean terminals. MSC coordinates inland container movement, procures commercial ocean cargo space, and provides ocean lift using Navy or charter vessels. The individual services handle the movement of air cargo. The passenger traffic function is divided between MTMC, which generally controls commercial air travel in the continental United States, and MAC, which controls international air travel, using both commercial carriers and the MAC fleet.

PPSSCC found that the function of mode selection and traffic management within DOD was fragmented and often in conflict with good management practice. Specifically, many of the decisions relating to the utilization of commercial air transportation services to points outside the continental United States were made by MAC, which also operates a fleet of military and cargo aircraft for DOD. The need to justify and utilize these resources often overrode economic criteria in carrier selection decisions and resulted in the use of military aircraft in situations

where commercial air carriers might have been chosen if purely economic analysis had been allowed to influence the transportation decision.

Further complicating this process, according to PPSSCC, was the fact that the decisions on domestic personnel movements were made by MTMC, which does not own any of its own resources. MTMC decisions often conflicted with the decisions made by MAC, particularly where movement from an inland point in the continental United States to an overseas destination was involved. Similarly, MSC operated its own resources and contracted for commercial cargo space. Again, operational considerations often overrode economic decisions. Finally, MTMC offered a career development path for military transportation specialists, whereas the Navy and Air Force did not provide for progressive career development in this specialized field.

The problem with implementing the recommendation has long been interservice concerns over loss of traditional responsibilities--the Navy and Air Force feel they have much to lose in any consolidation.

Secretary of Defense Melvin Laird first proposed this idea in 1971. The Joint Chiefs of Staff and the Secretary of the Navy were not pleased with the idea and the Congress rejected it.

The Secretary of Defense proposed the idea again in 1980. In a letter to the Secretary (OGC-81-1, Jan. 21, 1981), GAO said that it thought the plan was meritorious and suggested he expand the concept. (The Secretary's plan called only for MSC/MTMC consolidation and GAO suggested MAC be added.) The House supported the plan; the Senate did not. Eventually, legislation was enacted (section 1110 of the Defense Authorization Act, 1983) to prohibit use of appropriated funds for such consolidation.

The issue is still: How can DOD best establish a transportation/traffic management structure to improve operational readiness and realize peacetime economies and efficiencies while not diminishing traditional service responsibilities for modal and facility operations? The present structure works, but because it is so fragmented, it does not work as well as it could.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

Implementation of this recommendation would require repeal of section 1110 of the Defense Authorization Act, 1983. In its fiscal year 1985 authorization request, DOD suggested repeal of this provision. The Congress did not repeal the provision.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC savings estimates appear reasonable. They are in line with DOD's own 1980 study (the Harbridge House study) and 1979 and 1980 House Appropriations Committee studies. GAO has not, however, independently verified any of those figures.

V. RELEVANT GAO REPORTS

GAO/PLRD-81-27	Weaknesses in Negotiating Rates and Services for Commercial Containerized Sealifts (April 28, 1981)
GAO/OGC-81-1	Proposed Agenda of Significant Management Improvements and Cost Reduction Opportunities--Department of Defense (January 21, 1981)
GAO/LCD-77-227	Centralized Department of Defense Management of Cargo Shipped in Containers Would Save Millions and Improve Service (November 8, 1977)

VI. GAO CONTACT

H. Connor 275-4141

OSD 11: INLAND CONTAINER TRANSPORTATION PROCUREMENT

I. PPSSCC ISSUE AND SAVINGS

The Military Sealift Command (MSC) should discontinue its requirement that ocean carriers provide through (combination overland and overocean) bills of lading for intermodal (combination truck/rail and ocean) cargo movement. MSC should procure only ocean container transportation services. Local DOD shipping and receiving entities should procure inland container transportation services. The Military Traffic Management Command (MTMC) should be permitted to negotiate inland transport rates upon request by local shippers and receivers.

PPSSCC estimates that savings of $24.9 million over a 3-year period would result by eliminating the 10-percent management fee charged by ocean carriers for managing inland transportation and from the flexibility local shippers will have in negotiating inland transportation rates.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

In a 1981 report, GAO discussed a number of problems related to the transportation of containerized shipments. It did not, however, assess or explore the possibility of abandoning the through rate negotiation concept which PPSSCC is now advocating. Therefore, GAO cannot evaluate the merit of PPSSCC's recommendation.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

There is a question, given the language of section 1110 of the Defense Authorization Act, 1983, whether any change of negotiation responsibility can be made without legislative change. That section reads:

> "None of the funds appropriated pursuant to an authorization of appropriations in this or any other Act may be used for the purpose of consolidating any of the functions being performed on the date of the enactment of this Act by the Military Traffic Management Command of the Army, the Military Sealift Command of the Navy, or the Military Airlift Command of the Air Force with any function being performed on such date by either or both of the other commands."

PPSSCC is recommending that a function (inland negotiation) performed by MSC be taken over by MTMC. Since the Act seems to prohibit that, any transfer would, GAO believes, have to be reviewed by the Armed Services committees.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

While savings may be possible, PPSSCC does not provide sufficient detail for GAO to analyze.

V. RELEVANT GAO REPORTS

GAO/PLRD-81-27 Weaknesses in Negotiating Rates and Services for Commercial Containerized Sealift (April 28, 1981)

VI. GAO CONTACT

H. Connor 275-4141

OSD 12: CONTAINER DETENTION CHARGES

I. PPSSCC ISSUE AND SAVINGS

The Military Traffic Management Command (MTMC) should establish a cargo dispatch function which would coordinate cargo shipments with the unloading and storage capabilities at receiving locations. This would eliminate or minimize commercial carrier charges associated with detention of carrier equipment.

Savings, based on eliminating the container detention charges, offset against the additional costs for a dispatch function, are estimated by PPSSCC at $2 million in each of the first 3 years of the new function's existence.

II. GAO ANALYSIS OF ISSUES AND ASSOCIATED RECOMMENDATIONS

Although GAO has not specifically considered the feasibility of establishing a dispatch function, based on extensive experience in the area of containerization GAO believes the PPSSCC recommendation offers a reasonable solution to the detention problem. In GAO's opinion the problem is the result of fragmented management, and consolidation of the dispatch function, which would control the flow of containers between the shipper and receiving locations, should minimize detention charges.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

Section 1110 of the Defense Authorization Act, 1983, prohibits transfer of functions between MSC and MTMC. Assuming the Congress does not view the establishment of a dispatch function as such a transfer, GAO believes DOD can implement the PPSSCC recommendation under existing executive authority.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

PPSSCC did not provide data with which to assess the validity of its estimate. However, GAO reported (GAO/TCD-75-2) that DOD was incurring $1 million annually in detention charges at the Kaiserslautern Cold Stores Warehouse in Germany.

V. RELEVANT GAO REPORTS

GAO/LCD-77-227	Centralized Department of Defense Management of Cargo Shipped in Containers Would Save Millions and Improve Service (November 8, 1977)

GAO/LCD-75-2 Delays in Unloading Seavans at the Kaiserslautern Cold Stores Warehouse in Germany (February 10, 1975)

VI. GAO CONTACT

H. Connor 275-4141

OSD 13: CARGO DATA INTERCHANGE SYSTEM

I. PPSSCC ISSUE AND SAVINGS

In its program to improve and update the Military Standard Transportation and Movement Procedure (MILSTAMP), DOD should consider the extent to which it can integrate systems developed by the Cargo Data Interchange System (CARDIS). DOD's use of CARDIS should be contingent upon successful development of the system by the National Committee on International Trade Documentation (NCITD) (which is funded solely by the private sector).

One-time savings are estimated by PPSSCC at $4 million to $5 million based on a 1-year avoidance of costs related to systems development and purchase of new computer hardware.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

DOD moves millions of tons of cargo around the world each year. Much of this cargo moves by civilian commercial carriers. In the early 1960's, DOD developed MILSTAMP to provide semiautomated cargo documentation and tracing capability. This system consists of packets of 80-column cards for each unit shipped. The cards are input at various stages of cargo movement to provide cargo documentation and tracing.

Cargo movement in the private sector is accomplished through the use of bills of lading, commercial invoices, and packing lists, which perform the same function as the MILSTAMP cards. Both private sector and military systems, according to PPSSCC, are in need of major improvement to keep pace with changes in the transportation industry, improvements in transportation technology, and the advent of integrated electronic data processing systems which may eliminate the need for much of the printed document and punched card formats currently in use in the private and public sectors.

The MILSTAMP system has been modified in an attempt to make it more compatible with the realities of today's transportation system. The MILSTAMP system utilizes a technology which is 20 years old and is considered by many outdated and cumbersome by today's standards. Frequent modifications to the existing system also make it difficult to administer.

The Deputy Assistant Secretary of Defense for Supply, Maintenance, and Transportation recognized that the MILSTAMP system was in need of overhaul and directed the formation of

the MILSTAMP Improvement Program in January 1980. The MILSTAMP group was specifically directed to address options available for improvement of documentation, accounting, and administration procedures; cargo-in-transit visibility and control; interface with commercial carriers; and the need for long-term development of a modernized DOD transportation and movement system which would completely replace MILSTAMP.

CARDIS is a prototype system of cargo documentation being developed by NCITD. CARDIS seeks to integrate the data and tracking requirements of shippers, carriers, census offices, customs departments, banks, insurance companies, and consignees, which are all parties to the various transactions which support the flow of goods in international commerce.

NCITD began to work on the concept of electronically transmitting cargo transportation data in the early 1970's, when it became apparent that technology would provide the ability to develop electronic cargo mail. A prototype system was developed and tested in 1979, in a joint project funded by NCITD and the Federal Maritime Administration. The system test, according to PPSSCC, proved the utility of the CARDIS concept and provided a basis for refinement of system specifications. Revised CARDIS specifications have been published, and two potential vendors, Tymeshare and ADP, have announced their intention to provide a CARDIS-type service.

PPSSCC also says the MILSTAMP system is obsolete in terms of recognizing users' needs, compatibility with the deregulated transportation environment, and current electronic data processing technology. The private sector is currently wrestling with similar transportation and documentation problems. A combined effort by DOD and the private sector, says PPSSCC, could lead to considerable cost avoidance by DOD in upgrading MILSTAMP if a commercially acceptable cargo documentation and tracing system can be developed.

CARDIS is designed to provide cargo tracking and documentation to the private sector export market. Cargo configuration, transportation modes, and documentation requirements are basically similar for the private sector and DOD. Therefore, development of a common cargo data system, says PPSSCC, offers a good area for government and private sector cooperation as well as economies of scale for both organizations.

GAO pointed out problems with MILSTAMP in a 1976 and a 1977 report (GAO/LCD-76-234 and GAO/LCD-77-226). The issue was aired in a hearing before the Federal Maritime Commission in 1976. However, GAO has done no work on MILSTAMP since that time.

GAO agrees with PPSSCC and DOD that MILSTAMP should interface with the commercial carriers' system to the extent possible.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

DOD has the authority and ability to carry out the recommendation and it is giving it consideration.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

PPSSCC estimated the $4 million to $5 million could be saved by not developing new systems or acquiring additional hardware. Although PPSSCC did not provide sufficient data to validate its estimate, GAO believes that, given the cost of current system development and hardware, the estimates do not appear unreasonable.

V. RELEVANT GAO REPORTS

GAO/LCD-77-226	Letter report to the Secretary of Defense following up on the Secretary's comments to GAO/LCD-76-234 (May 3, 1977)
GAO/LCD-76-234	Letter report to the Secretary of Defense on the Procurement of Containerized Shipping Service to Puerto Rico, Hawaii, and Guam (August 4, 1976)

VI. GAO CONTACT

H. Connor 275-4141

USAF 11: NO-SHOW PASSENGERS FOR MILITARY AIRLIFT COMMAND FLIGHTS

I. PPSSCC ISSUE AND SAVINGS

DOD should take action to ensure better management of the use of seats on aircraft chartered from commercial carriers to move military personnel worldwide.

PPSSCC estimated that military members who do not show up for their designated flights (no-shows) are costing DOD about $15 million a year.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

Each year the Military Airlift Command (MAC) contracts with commercial air carriers for the transportation of military personnel worldwide on chartered aircraft. MAC buys the number of seats the military services say they will need for passengers traveling on official business.

PPSSCC reported that about 12 percent of the seats on chartered aircraft were not used by space-required (official duty) passengers. The passengers did not show up for their flights for various reasons. Some of the seats were eventually filled by space-available travelers for whom the government is not required to provide transportation.

In a report to the Secretary of Defense, dated April 22, 1983, GAO called attention to the no-show problem and recommended that DOD (1) study the no-show issue to isolate the causes, and (2) take appropriate corrective action after causes are determined. GAO also recommended assessment of penalty billing if the no-show rate is not reduced.

PPSSCC recommended that DOD review GAO's report and complete a detailed study of the issue. It, like GAO, also recommended penalty billing against sponsoring units for members who do not show up for flights.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The recommendation can be implemented through executive action. DOD has taken or is planning corrective action which GAO believes is responsive to GAO and PPSSCC recommendations. DOD has established procedures to provide a monthly listing of no-shows to the sponsoring military services. It has also tasked the Air Force with developing and coordinating with the military services a proposal for an incentive billing system for no-show passengers.

Also, in a move made subsequent to issue of the GAO and PPSSCC reports, the Congress reduced the 1984 Air Force budget by $15 million as an incentive to better manage seat use on chartered aircraft.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

PPSSCC estimated that better management of the use of seat space would save DOD $15 million a year. GAO believes this estimate is reasonable. In its report, GAO estimated the savings at about $13.5 million annually.

V. RELEVANT GAO REPORTS

GAO/PLRD-83-55 More Effective Use of Contract Airlift Could Reduce DOD's Transportation Costs (Apr. 22, 1983)

VI. GAO CONTACT

H. Connor 275-4141

USAF 12: CONTRACT TRAVEL BY THE MILITARY AIRLIFT COMMAND

I. PPSSCC ISSUE AND SAVINGS

Non-DOD agencies with significant international travel should be required to utilize major Military Airlift Command (MAC) channels. Also, a special team under the leadership of the Office of Management and Budget, with representatives from MAC, the General Services Administration (GSA), and other user agencies, should negotiate with American-flag international carriers to procure special fares for government employees on official business.

PPSSCC reported that the government could save approximately $6 million to $10 million annually by using MAC flights and by negotiating lower rates.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

MAC, as DOD's single manager for airlift, provides support for the military services. MAC's global network of cargo and passenger service covers most of the areas of the world where the United States has major overseas bases or provides logistical support to allied countries. MAC's primary mission is to provide Joint Chiefs of Staff with a strategic airlift force for immediate use in emergencies. To carry out this mission, MAC has a large fleet of aircraft supplemented with airlift procured from commercial carriers.

At present, MAC international passenger operations are used only by DOD personnel. MAC has been able to provide or procure travel for such personnel at rates substantially lower than commercial fares.

Non-DOD agencies sponsor a considerable amount of international travel at standard commercial rates. Although GSA has been able to obtain discount fares for such agencies on domestic travel, overseas travel is usually at regular tariff rates.

In GAO's opinion, the PPSSCC recommendation that OMB negotiate with air carriers for discount rates has merit. Although commercial airlines may object to giving discount fares to non-DOD agencies because it reduces their revenues, GAO believes the government has sufficient market power to obtain lower rates for non-DOD travelers.

GAO has no basis to comment on the recommendation that non-DOD travelers be required to use major MAC channels, because GAO has not done any work concerning this matter.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

PPSSCC's recommendation that non-DOD civilians be required to use MAC flights could be implemented through executive action. However, for reasons stated above, GAO cannot comment on the feasibility of this recommendation.

GAO believes, based on its work on the GSA domestic air fare program, that it is feasible to negotiate for discount fares for non-DOD travelers on international travel. Qualified air carriers would be competing for the government business. The recommendation can be implemented by executive action.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO cannot validate the overall PPSSCC estimate of savings. PPSSCC did not give the basis for its assumption that 10 percent of non-DOD overseas trips could have been made by MAC.

That part of the PPSSCC estimate pertaining to negotiating discount fares appears more valid. The savings per trip is based on rate reductions DOD has been able to obtain. However, PPSSCC's range of possible travelers involved--25,000 to 50,000--is wide and, therefore, makes this estimate uncertain.

V. RELEVANT GAO REPORTS

None.

VI. GAO CONTACT

H. Connor 275-4141

USAF 3: STREAMLINING THE PROGRAMMING AND BUDGETING REVIEW PROCESS

I. PPSSCC ISSUE AND SAVINGS

"Can the amount of time and paperwork required for preparation and review of the Air Force Program Objective Memorandum and budget be further reduced?

An estimated 120,000 staff-hours ($2.4 million) can be saved annually, and a 50 percent reduction in paperwork can be achieved, if program and budget processes are done at the same time."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

This issue concerns consolidating the program and budget reviews now performed by the Air Force into a single review. PPSSCC estimated savings of $7.2 million ($7.9 million with inflation) for a 3-year period ($2.4 million annually) beginning with fiscal year 1985.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO has reservations about the merits of this proposal. GAO believes that the benefits of merging the program and budget reviews may be offset by new problems created by reliance upon "soft" numbers for budget purposes. Currently, the Air Force first develops program objectives during its "programming" phase work. Information developed in that process is subject to being refined in the subsequent "budget" review--which should produce better estimates. Consolidating the reviews would eliminate any subsequent refinement process. The reviews should not be consolidated unless there is clear evidence that the program reviews can be conducted with budget-quality information.

GAO's assessment of this issue is based upon work performed by a joint DOD/GAO working group which studied the Department of Defense Programming/Planning/Budgeting System ("DOD's PPBS,"September 1983).

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO has no basis for estimating the reliability of the PPSSCC savings estimate for this issue.

V. RELEVANT GAO REPORTS

The following joint DOD/GAO report presents our position on this issue.

DOD/GAO	DOD's PPBS (September 1983)

VI. **GAO CONTACT**

John R. Cherbini 275-9487

USAF 8: CONSOLIDATION AND COORDINATION OF AIR FORCE RESERVE AND AIR NATIONAL GUARD ACTIVITIES

I. PPSSCC ISSUE AND SAVINGS

"Will coordinating and consolidating some Air Force Reserve and Air National Guard operations provide cost savings?"

The PPSSCC recommended a detailed review by DOD of Air National Guard and Reserve facilities, aircraft basing, and overall operations to identify opportunities for facilities consolidation, aircraft collocation, and better coordination. It also recommended that future aircraft deployment decisions consider savings available from greater squadron size and coordination of aircraft support between Reserve and Guard units.

"Cost savings from facilities consolidation, improved aircraft basing practices, and Air National Guard participation in the Associate Program are estimated at $165.5 million over 3 years."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO agrees with the thrust of the PPSSCC recommendations. Cost savings that could accrue from more aggressive management of the Air Force's Reserve components has been documented in GAO reports. For instance, in a report on the logistics support provided Air Reserve Forces as they are modernized (GAO/LCD-80-11), GAO found that substantial savings and increased effectiveness could be achieved by using alternative basing and support structure and by making the Air Reserve Forces more like the Active Air Force.

GAO recommended in that report that the Secretary of the Air Force reconsider modernization plans for the Air Reserve Forces with emphasis on reducing support requirements. GAO also recommended that the Secretary of Defense require the Secretary of the Air Force and the Chief of the Air National Guard Bureau to operate and support the peacetime Air Reserve Forces' support structure as it would be in wartime; collocate common type aircraft and centralize support functions to a greater extent; locate Air Reserve Forces on Active Air Force bases to a greater extent; and expand the Air Force Associate Program to other mission areas and include the Air National Guard in the Program. The Associate Program houses Air Force reserve units at active military installations where reservists and full-time active duty people--side-by-side--fly and maintain

the same equipment. As a result, reserve units have a smaller overhead structure and do not require funding for provision or maintenance of additional equipment.

These recommendations were based on findings that the Air Reserve Forces, supposed to be as similar as possible to the Active Air Force, were actually structured, based, and supported quite differently. And, when aircraft were transferred from the Active Air Force to the Air Reserve Forces, these differences caused severe and costly support problems. In addition, GAO found, as did the PPSSCC, that Air National Guard units were not participating in the Air Force Associate Program--a successful and economical means of integrating Air Reserve units with their active counterparts--when there were opportunities to do so.

In their comments on GAO's recommendations, DOD and the Air Force agreed that improved planning could result in better logistics support of the Air Reserve Forces, but stated that the complex issues involved required long-term study. Local recruiting potential for Air Reserve Force units was cited as a vital consideration in collocating Reserve units. DOD and Air Force officials also commented that the Tactical Air Command recommended against the use of the Associate Program in the command after a 2-year test of the concept at an Air Force base apparently failed. (GAO did not evaluate the test results.) The officials "agreed in principle", however, that other mission areas should be examined for application of the Associate unit concept.

GAO concurs with the PPSSCC's recommendations for the Air Reserve Forces as regards facilities consolidation, current and future aircraft basing, and better coordination of overall operations. These recommendations are supported in several GAO reports on the subjects. Greater consolidation of military base support activities and services, collocation of common type aircraft, and coordination of Active and Reserve Component Forces' operations offer tremendous opportunities for cost reduction. However, more aggressive pursuit of the opportunities for cost savings by military decisionmakers is needed if the savings are to be realized.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

DOD has the authority to implement the PPSSCC's recommendations. However, notwithstanding the potential savings involved, neither the reserve components nor the Air Force--and, by extension, DOD--found the recommendations

attractive because they interfered with the components' prerogatives and would have adverse political implications for the state governors and local populations. The governors, by law, command their respective Guard forces in peacetime. Moreover, the Guard units' presence on municipal airports benefit the airports. For these reasons little has been done on the issues. Accordingly, GAO believes that DOD would have to have the strong support of the Congress to take the actions called for by the PPSSCC.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC savings estimates were based primarily on savings that could accrue from restructuring smaller Air Reserve Forces' aircraft squadrons of particular types to larger, more economical squadrons. The PPSSCC's estimates were consistent with similar savings estimates in GAO reports. GAO believes the PPSSCC's and GAO's past estimates are conservative because (1) current Air Force Reserve estimates, made at GAO's request, and during testimony by the Chief of the Air Force Reserve during DOD appropriation hearings for fiscal year 1984, indicate substantially greater savings could accrue from such restructuring, (2) there are a greater number of candidate squadrons today than when the GAO or PPSSCC reports were completed, and (3) the PPSSCC's estimates did not consider all types of candidate aircraft squadrons that could be restructured. Moreover, the PPSSCC's savings estimates did not consider the potential savings that could accrue from the Air Guard's participation in the Air Force Associate Program. These savings, though potentially considerable, could not be quantified without extensive analysis by the Air Force and the National Guard Bureau.

V. RELEVANT GAO REPORTS

GAO/LCD-80-92	Consolidating Military Base Support Services Could Save Billions (September 5, 1980)
GAO/LCD-80-11	Modernizing The Air Reserve Forces--More Emphasis On Logistics Support Needed (November 6, 1979)
GAO/LCD-79-404	Can The Army And Air Force Reserves Support The Active Forces Effectively? (April 25, 1979)

VI. GAO CONTACT

John Landicho 275-6504

ARMY 1: RECRUITMENT, TRAINING, AND DISTRIBUTION OF NEW ENLISTEES

I. PPSSCC ISSUE AND SAVINGS

Can the Army save money by improving the planning and control of recruitment, training, and distribution of initial-entry enlisted personnel?

The PPSSCC made four recommendations associated with this issue (1) the appointment of a permanent manager to plan and coordinate the process of determining requirements, recruiting, training, and distributing initial-entry enlisted personnel, (2) revision of the enlisted personnel assignment system, eliminating the requisition system and replacing it with an automated assignment system to the ultimate unit of assignment, (3) implementation of policies which mandate that enlisted personnel be used only in positions for which they were trained, and (4) addition of hardware and communications capability to integrate an Army-wide system. They projected a savings over 3 years at $189.5 million from improved process management.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO agrees with the concept of the recommendations and the PPSSCC findings tend to parallel those of GAO.

To be properly implemented, the first three recommendations need some form of an integrated Army-wide system of hardware and communications capability to function adequately, and the Army has been moving in that direction.

Also, the Army has a structure which should be able to achieve the needed integration of functions--the Deputy Chief of Staff (DCS) for Personnel. However, increased coordination might be achieved by moving the Training Directorate from under the DCS for Operations and Plans to the DCS for Personnel as is the current practice in the other services.

GAO has reported on problems with the Army's assignment system as early as February 16, 1978, (GAO/FPCD 78-6); and as recent as March 20, 1984 (GAO/NSIAD 84-17). In each of these reports, GAO found that the Army was using trained individuals to work in occupations outside their skill area. Also, in each report, we made recommendations to streamline the assignment process and assign individuals to occupations for which they were trained. The findings of the PPSSCC seem to parallel those in our reports on the Army enlisted assignment system concerning the misuse of trained people.

On March 20, 1984, GAO issued a report Army Can Better Use Its Soldiers Trained in Critical Shortage Occupations

(GAO/NSIAD 84-17). One of GAO's recommendations was that the Secretary of the Army ensure compliance by commanders, within the limits of their discretionary authority, to Army policy requiring the utilization of bonus recipients in their primary occupations. Another recommendation asked the Secretary of the Army to examine whether additional Army-wide policy should be established to limit the discretionary authority of commanders to utilize NCO's in select critical shortage occupations for tasks outside of their prime occupations.

GAO also issued a report on February 17, 1984, Army Could Do More to Reduce Imbalances in Military Occupational Specialties (GAO/NSIAD 84-20). GAO recommended that the Secretary of the Army implement, on a test basis, the Army's stated policy for controlling first-term reenlistments in over-strength occupations and retraining soldiers into understrength occupations.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

Implementation authority for these recommendations lies within the Department of the Army.

The portion of the PPSSCC recommendation that personnel and assignment policies be enforced without exception is stronger than would appear feasible or practical considering the size of the Army, the number of worldwide locations, and humanistic factors which are certain to impact personnel and assignment policies.

With regard to the PPSSCC recommendation which calls for replacing the requisition system with an automated assignment to the ultimate unit of assignment, such a system would streamline the assignment process. However, there are some humanistic factors in assigning individuals--such as compassionate assignments, choice of duty station, the Army's consideration for families, situations where members are married, and morale--which will impact the process to streamline assignments to the ultimate unit level. The Army also has a large "in-transit" pool of enlisted personnel, and it is uncertain how it would be affected.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

PPSSCC estimated a savings over 3 years of $189.5 million. While GAO believes that streamlining the assignment process, would result in some savings, GAO has no position on the amount that could be saved.

V. RELEVANT GAO REPORTS

GAO/NSIAD 84-20	Army Could Do More to Reduce Imbalances in Military Occupational Specialties (February 17, 1984
GAO/NSIAD 84-17	Army Can Better Use Its Soldiers Trained in Critical Shortage Occupations. (March 20, 1984)
GAO/FPCD 78-6	Management and Use of Army Enlisted Personnel--What Needs to Be Done? (February 16, 1978)

VI. GAO CONTACT

Kenneth J. Coffey 275-5140

ARMY 2: OVERSEAS TOURS OF NEW ENLISTEES

I. PPSSCC ISSUE AND SAVINGS

Should the Army reevaluate whether overseas tour length for first-term enlistees in long-tour areas could be increased from 18 to 30 months?

The PPSSCC estimated that reinstituting a 30-month tour for new enlistees would, after an 18-month phase in, save $253.6 million over a 3-year period. This estimate assumes a 10 percent inflation factor.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC recommended that the Army reestablish the tour length for first-term enlistees in long-tour areas at 30-months. GAO has not fully evaluated the pros and cons of this recommendation; however, an ongoing study of how DOD and the services justify and modify overseas tour lengths will provide additional information relative to this issue.

GAO's ongoing study indicates that systematic analyses of proposed tour length policies--including an analysis of associated costs and benefits--are not routinely performed. In support of DOD's 1980 decision to shorten tours for first-term enlistees from 30 to 18 months, the Army collected extensive data to show that morale was low and disciplinary actions were occurring at a higher rate at long-tour overseas locations than in the United States. The Army hypothesized that a change in tour length policy would result in improved morale, fewer drug and other disciplinary problems, increased reenlistments, and improved combat readiness.

Since that time, the Army has continued to collect data to track improvements in these areas. Slight improvements have been noted, but it has not been possible to determine whether these improvements can be attributed to shorter tours for first-term personnel, or whether the improvements have come about for other reasons. However, indications are that other changes that have occurred since 1980 in areas of compensation and recruitment policy may have had a greater impact on these improvements than the tour length change.

For example, two across-the-board catch-up pay raises were granted, one in fiscal year 1981 (11.7 percent),and another in fiscal year 1982 (an average of 14.3 percent). As a result, military pay became competitive with pay in the private sector for the first time in several years. Recent DOD attitudinal surveys show that these increases improved morale.

Also since 1980, the percentage of "high quality" recruits--those scoring in the top-three mental categories

of the military aptitude test or those with a high school diploma--has increased dramatically. For example, in fiscal year 1980 only 54.3 percent of new Army recruits were high school graduates, whereas by fiscal year 1984, 91 percent of the Army's non-prior service accessions were high school graduates, and 90 percent scored in the top three mental categories. A 1979 GAO study (FPCD-78-52) found that, as a group, high school graduates, particularly those in the top mental categories, are much less likely to become disciplinary problems and are better able to successfully adapt to military life.

II. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that the Army, with the concurrence of DOD, has the authority to implement this recommendation. The PPSSCC suggested that the recommendation be phased in to apply only to people who enlist after the effective date of the policy change.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC 3-year savings estimate of $253.6 million generally appears reasonable, except for the 10 percent inflation factor which may not be realistic. However, the estimate assumes that Army end-strength can be cut by 2,800 soldiers, the number currently carried in the "Individuals Account" for people in transit. End-strength reductions account for about $92.7 million of the estimated savings. If end-strengths are not reduced, this budgetary savings will not materialize, but other unfilled manpower requirements could be met for an overall increase in readiness.

V. RELEVANT GAO REPORTS

GAO/FPCD-78-52 AWOL in the Military: A Serious and Costly Problem (March 30, 1979)

VI. GAO CONTACT

Kenneth J. Coffey 275-5140

NAVY 16: CAREER MANAGEMENT

I. PPSSCC ISSUE AND SAVINGS

Can rotation costs be reduced within the Navy through the introduction of more effective career management techniques and more cost-effective rotation policies and procedures?

The PPSSCC calculated that if about 15 percent of officers and 15 percent of enlisted personnel were selected into a high potential pool and the tours of these personnel were extended by one year, the attendant savings would be approximately $8.5 million in reduced relocation costs in FY 1983.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC concluded that the Navy career management system has a number of problems that lead to higher rotation costs. While noting that the assignment process involves an imprecise judgmental balancing of Navy military needs and the career needs of individuals, they identified several key weaknesses:

--Detailers (assignment officers) are not long-term career planners.

--Data on long-term career objectives does not exist.

--There are no provisions for identifying those with truly high potential and for charting their careers more carefully.

The PPSSCC sees the following benefits inherent in more intensive management of the careers of a selected group (they recommend 15 percent) of officers and enlisted personnel:

--Improvements in individual productivity.

--Improvements in overall Navy readiness.

--Reduction in pipeline training.

--Reduction in costs associated with rotations.

An implication that was not really dealt with in the PPSSCC analysis is that, in order to raise the average tour length by a year, the Navy would have to target a higher reduction. The reason for this is that a change in the tour length policy would not eliminate the need for exceptions and therefore some tours will continue to be curtailed for various reasons such as the needs of the service or compassion for those with personal hardships. GAO's 1978 report

(FPCD 78-28) showed that such job turbulence (i.e., people holding jobs for relatively short durations) is particularly prevalent among senior officers.

While GAO has not addressed the specific recommendations made by PPSSCC, it has dealt with related issues. With regard to the recommendation that calls for the conduct of audits to ensure appropriate quality of personnel, GAO has endorsed the Navy's conduct of research aimed at measuring personnel productivity and determining whether manpower requirements can be developed that will lead to increases in the Navy's level of readiness (NSIAD 84-30). GAO also reported that grade and experience requirements, which are the Navy's measures of "quality," are highly judgmental and are the weakest link in the overall manpower requirements determination process.

Two of the PPSSCC's recommendations call for extending the tour length of certain groups of personnel. While GAO generally endorses the concept of longer tour lengths, we do not agree with singling out specific subgroups (such as "fast-burners" or detailers) for disparate treatment. GAO believes that the advantages to be derived from longer tour lengths can accrue in many assignments. GAO would, therefore, broaden the recommendation to urge that the Navy explore the possibility of longer tours in other kinds of assignments as well. It should be noted however, that lengthening tours in undesirable assignments is likely to have adverse effects on job proficiency, morale, and retention.

With regard to the establishment of a high-potential pool, GAO has not made recommendations along those lines. PPSSCC's analysis does not make it clear what problems this recommendation is aimed at solving and, therefore, GAO has no basis for agreeing or disagreeing with this recommendation. If tour-length were increased Navy-wide, this recommendation would be moot.

Another PPSSCC recommendation calls for a civilian career planning/succession planning expert to manage the high-potential program. While GAO does not see the need for a high-potential program as a means for reducing rotation costs, GAO has endorsed an upgrading of professionalism in the manpower/personnel management areas. In 1979, GAO recommended that the services establish and support viable career fields for civilians and officers in the manpower/ personnel function (FPCD 79-1). However, GAO does not see the need for the position that PPSSCC proposed the Navy establish.

In sum, GAO favors a general slowdown (i.e., one not limited to just a select group) of tour rotations for several reasons:

--to lower PCS costs,

--to improve job proficiency,

--to increase decision-making accountability, and

--to improve quality of life by reducing family disruption.

However, in implementing longer tours, it is important to consider the possible adverse effects that might result from increasing tours in assignments that are considered undesirable.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The implementation authority for the PPSSCC recommendations made concerning this issue lies within the Department of the Navy.

The feasibility of the recommendation to establish a high-potential pool is likely to raise issues which were not addressed by the PPSSCC such as fairness and equal opportunity. Also, it does not appear to account for the selection system problems such a program would be likely to encounter.

To GAO's knowledge, no action with regard to these recommendations is either in process or being planned.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO has no basis upon which to judge the reasonableness of the estimated savings computed by PPSSCC. However, GAO found no indication that the PPSSCC analysis recognized that the needs of the service and compassion for those with personal hardships will continue to cause a significant number of curtailed tours nor did GAO find any analysis of the cost of establishing and maintaining the high-potential program.

V. RELEVANT GAO REPORTS

GAO/NSIAD 84-30	Confusion Over Validity and Effects of Purported Petty Officer Shortage (June 27, 1984)
GAO/FPCD 79-1	Military and Civilian Managers of Defense Manpower: Improvements Possible in Their Experience, Training and Rewards, Volumes I and II (February 16, 1979)

GAO/FPCD 78-28 Reassignment of Senior Military Officers Can Be Managed Better (March 21, 1978)

VI. GAO CONTACT

Kenneth J. Coffey, 275-5140

OSD 33: PERMANENT CHANGE OF STATION MOVES

I. PPSSCC ISSUE AND SAVINGS

Should DOD eliminate unnecessary permanent change of station (PCS) moves and strictly limit the number of exceptions (curtailments) granted under existing PCS policy?

Should DOD undertake a comprehensive analysis of appropriate minimum tour lengths and possible cost saving measures to determine whether existing PCS policy should be revised?

The PPSSCC estimated that full implementation of its recommendation to better manage PCS moves would result in savings of $331 million over 3 years--assuming a 10 percent inflation factor.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

In support of this issue, the PPSSCC recommended that DOD require better management of PCS moves and place strict limits on the number of reportable exception moves allowed. In connection with this recommendation, the PPSSCC said that a comprehensive analysis of PCS policies and reporting requirements should be conducted, and revisions made for better control and more cost-effective management of PCS moves.

GAO agrees that DOD and the military services should more closely manage tour curtailments, and that DOD should direct that a comprehensive analysis be done of the appropriate tour length at each overseas location. GAO's ongoing evaluation of how DOD and the services justify and change overseas tour length policies and how they manage tour curtailments indicates the following:

--No regular process exists for analyzing the cost/benefit tradeoffs of differing tour lengths.

--The criteria for approving tour length changes are vague and, as a result, decisions rely heavily on personal judgments.

--The estimated cost of changing an overseas tour length, although usually calculated, generally does not weigh heavily in the decision whether to change the tour length.

The PPSSCC was concerned that most tour curtailments are unnecessary. A thorough and complete evaluation of the tour management process, including an assessment of the reasons for shortened tours, cannot be performed at this time by either GAO or DOD because the military services' data bases

are incomplete and inaccurate, and contain inconsistent information. In September 1983, a Joint Services PCS study concluded that

> "Existing management information systems are unable to capture key information necessary for analysis and detailed understanding of the PCS program. For example, the services are unable to track average time-on-station, and as a consequence are unable to define how their PCS programs and initiatives translate into greater stability at the unit level."

GAO agrees with this Joint Services Study Group conclusion, and with the suggestion that a uniform PCS management information system be developed. To date, the services have not agreed upon a uniform management information system.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that authority to implement the recommendations in this issue resides with the Secretary of Defense. DOD and the services began to partially address this PPSSCC issue when it established the PCS Study Group in August 1983. DOD and the services have taken several actions to strengthen the management of this program, and other actions are planned or are under active consideration. These actions include a complete reexamination and update of the DOD instructions governing PCS and tour length policies.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

Based on the data reviewed, GAO believes that the PPSSCC methodology overstates the estimated savings. Although the PPSSCC recommended that PCS moves be "better managed" and that limits be put on the number of curtailments, its savings estimate was calculated on the assumption that all curtailments would be denied. In GAO's opinion, this assumption and the 10 percent inflation rate are unrealistic. Also, the PPSSCC calculated its savings estimate by multiplying the number of tour curtailments by the cost per move. This methodology assumes that individuals' tours were curtailed immediately upon arrival on station.

V. RELEVANT GAO REPORTS

GAO/FPCD-83-31 Navy Could Reduce Costs By Better Monitoring Its Enlisted Transfer Policy (June 14, 1983)

VI. GAO CONTACT

Kenneth J. Coffey 275-5140

ARMY 6: EXTENDING ARMY CAREERS

I. PPSSCC ISSUE AND SAVINGS

Can the Army extend the careers of some of its military personnel, thereby lessening the cost of recruiting and training, and increasing the average proficiency of its men and women in uniform?

The PPSSCC estimated that $387.3 million would be saved over a 3-year period--assuming 10 percent inflation--if all five of its recommendations in this area were adopted. Estimated savings were not identified separately for each recommendation.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

Currently, most military personnel retire from the service shortly after having served 20 years. The PPSSCC identified five specific recommendations associated with extending the careers of Army enlisted personnel and officers. The specific recommendations were as follows:

--The Army should undertake a study of options for modifying the "up-or-out" system and report its findings to the Secretary of Defense who should determine when and if their findings should be forwarded to the Congress.

--The Army should evaluate the experience of our European allies who, among other things, utilize two-track (i.e., a combination of career and "up-or-out") systems.

--The military retirement system should be modified.

--The Army should establish valid physical measures for each military occupation specialty and fill requirements in terms of those measures.

--The Army should accelerate implementation of the Force Competency Plan currently being considered for testing.

GAO basically agrees that each of these specific recommendations has merit and should be pursued; however, GAO's views on how the rather broadly stated recommendations should be implemented may differ from those of the PPSSCC.

Regarding the first recommendation, GAO has long supported a reexamination of the "up-or-out" personnel system. As pointed out in a March 13, 1978, GAO report (FPCD-77-81), the "up-or-out" system is not concerned with

an individual's ability to perform effectively, but with his relative standing among his peers. DOD's force structure policies do not permit members who are passed over for promotion but are still capable of performing effectively to complete full careers. A fundamental change in the "up-or-out" system would necessitate other changes in the way the Army manages personnel, such as the promotion and assignment systems. However, in view of the demographic changes that are occurring and the anticipated need to retain older workers, GAO agrees with the PPSSCC recommendation that it is time to reexamine the traditional "up-or-out" military policy.

In this regard, GAO also agrees with the PPSSCC's second recommendation that a review of our allies' personnel management systems including their two-track policies and experience would be beneficial. A 1983 GAO study which compared the United States military retirement system with those of several other countries found, for example, that military personnel in other countries frequently had longer average careers and retired at an older age than in this country. Of the six allied countries studied, only one had an "up-or-out" promotion policy somewhat resembling that of the U.S. Army. This is not to suggest that personnel systems of other countries should necessarily be the model for the U.S. system; however, the experiences and lessons learned by our allies using alternative systems may prove to be valuable to the U.S. Army as it develops plans to deal with the changing demographics and the resulting manpower challenges it will face through the next decade.

Regarding their third recommendation, the PPSSCC Army Task Force did not examine in detail the military retirement system, and therefore did not make any specific recommendations on how the system should be modified. It did state that 20-year careers are too short and that the current system encourages 20-year careers, but the Army Task Force deferred to the OSD Task Force to make recommendations on specifically how the retirement system should be modified. The final PPSSCC recommendations on the military retirement system are contained in the PPSSCC Management Office Selected Issues, Volume VI, Federal Retirement Systems. GAO's evaluation of these final recommendations on military retirement are contained in the section of this report dealing with PPSSCC issues FRS 1, FRS 4, FRS 5, FRS 6, and FRS 7.

Regarding the fourth PPSSCC recommendation, GAO has also questioned whether the Army's desire for "youth and vigor"[1] continues to be a requirement for all military jobs. As observed in a 1978 GAO report on the military retirement system, the issue of "youth and vigor" versus experience is becoming increasingly important as weapons become more sophisticated and highly developed skills learned through experience become a more important factor in soldier performance. Thus, GAO agrees with the PPSSCC recommendation that the Army should establish valid physical and mental requirements for each military occupational specialty and fill the occupational specialties in terms of those requirements.

Regarding the last PPSSCC recommendation, GAO also supports the early testing of the Force Competency Plan. Basically, this plan would provide financial and non-financial rewards for people who increase in job proficiency without having to be promoted in rank. Under the current system, in order to reward an outstanding hands-on journeyman, he or she must be promoted in rank. This usually places the individual in a supervisory position--a position for which he or she may or may not be suited. GAO doubts whether the current system is efficient in achieving maximum soldier productivity and believes that the Force Competency Plan should be tested.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC assessment that DOD can, without any additional congressional authorization, (1) study various options for modifying the "up-or-out" system, (2) study foreign military personnel systems, including our allies' experience with two-track systems, and (3) establish valid physical measures for each military occupation. While the studies can be done without additional legislative authorization, any fundamental modifications of the military personnel system which might result from these studies would require changes in legislation.

In GAO's opinion, either testing or full implementation of the Army's Force Competency Plan would require congressional approval because the plan would fundamentally change

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1The term "youth and vigor" is frequently used by the military and others in reference to the belief that strong foot soldiers, alert young pilots, and physically and mentally fit personnel--as opposed to old sergeants and colonels--are needed in all military assignments. The services contend that all service members must be able to carry out physically demanding jobs over a protracted period, and therefore that they must be able to rid themselves of those who do not measure up. However, the services have not determined when their personnel are no longer young and vigorous.

the way some enlisted people are financially rewarded for increases in their skill proficiency. The underlying concept of an approach such as this is that the compensation of enlisted members would increase as their skill proficiency increases without the individual being promoted in rank.

Modifying the military retirement system would also require legislation.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC provided no details for quantifying the projected savings estimate for this issue. The PPSSCC assumed that the recommended studies would show that Army careers could be lengthened, and that this would result in the need to recruit and train 4,500 fewer enlisted personnel and 975 fewer officers (annually), at a savings of $117 million per year.

As stated, GAO believes that the specific PPSSCC recommendation to study various personnel management options have merit and should be pursued. However, it is premature to (1) predict whether the studies being recommended by the PPSSCC would support the need for fundamental changes in personnel management or (2) calculate the extent to which savings would occur. Only after the studies have been completed will GAO or the Army be able to estimate the potential savings involved.

V. RELEVANT GAO REPORTS

Testimony	How the U.S. Military Retirement System Compares with Other Systems, by Kenneth J. Coffey, National Security and International Affairs Division, before the Subcommittee On Military Personnel and Compensation, House Committee on Armed Services. (July 29, 1983)
GAO/FPCD-77-81	The 20-Year Military Retirement System Needs Reform (March 12, 1978)
GAO/FPCD-77-42	Urgent Need for Continued Improvements in Enlisted Force Management (Sept. 29, 1977)

VI. GAO CONTACT

Kenneth J. Coffey 275-5140

HOSP 1: MILITARY HOSPITALS OPERATING LESS THAN 50 BEDS OR AT LESS THAN 60 PERCENT OCCUPANCY

I. PPSSCC ISSUE AND SAVINGS

"Can programmed and budgeted major renovations and replacement projects for military hospitals be eliminated or reduced in view of low utilization rates?"

By eliminating programmed renovation or replacement projects for hospitals operating 50 beds or less and for larger hospitals operating at less than 60 percent occupancy, and referring inpatients from these facilities to civilian or other federal hospitals, the PPSSCC estimates three-year savings of $687.7 million. (The savings discussed in the narrative of the report, $752.1 million, does not agree with the total, $687.7 million, presented in the schedule explaining how the estimates were calculated.)

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

Ongoing work by GAO concerning small DOD hospitals -- 50 beds or less -- indicates that savings are possible by converting some of these facilities to outpatient clinics and referring inpatients to other nearby civilian facilities. Conversion of small hospitals could also result in savings if planned construction projects for these facilities are eliminated.

The PPSSCC recommends that DOD beneficiaries seek medical care in private or other federal facilities where appropriate. GAO supports this recommendation in principle.

To encourage the use of private facilities, the PPSSCC suggests that DOD consider reducing or eliminating the CHAMPUS (Civilian Health and Medical Program of the Uniformed Services) deductible. CHAMPUS is a program which partially pays for medical care in civilian facilities for certain DOD beneficiaries. This suggestion conflicts with the PPSSCC's findings and recommendations outlined in Issues OSD 28 and OSD 30, which (1) state that DOD beneficiaries should be required to use direct care facilities and should pay more for care obtained from the private sector, and (2) encourage increasing the CHAMPUS deductible.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

Eliminating or reducing major renovation or replacement projects may require congressional action. Reducing or eliminating CHAMPUS deductibles would also require legislative action since these amounts are established by law. GAO is not aware of actions by DOD to seek congressional approval for the reduction or elimination of the CHAMPUS deductible.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC savings estimates are based on two components: (1) savings achieved through eliminating construction projects at small or underutilized DOD medical facilities, which are offset by (2) increased costs to the government by encouraging the use of private or other federal facilities.

Regarding the first component, the PPSSCC estimate may be optimistic. It assumed that planned construction will take place as scheduled. In the past, DOD has deferred projects. Moreover, the possibility exists that the Congress might not appropriate all or any of the requested funds.

In addition, the PPSSCC recommends eliminating construction or renovation projects at larger facilities operating at less than 60 percent capacity and bases occupancy rates on normal beds. (Normal beds are defined as constructed capacity less space permanently converted to other (non-bed) use.) In many cases, this gives a false impression of current patient workload. DOD has closed down patient beds for various reasons. When patient load is calculated based on operating beds -- staffed beds -- most hospitals reviewed by the PPSSCC exceeded 70 percent occupancy and some exceeded 80 percent. These rates are in excess of the PPSSCC criteria (60 percent) for eliminating construction or renovation projects.

The PPSSCC estimate on the second component -- increased costs -- may be too high because it assumed that (1) all inpatients would be referred to civilian facilities instead of some being referred to other federal facilities, and (2) civilian care is more expensive, a premise which the PPSSCC agrees may be disputed.

V. RELEVANT GAO REPORTS

GAO/HRD-81-24	Legislation on Sizing Military Medical Facilities Needed to Correct Improper Practices, Save Money, and Resolve Policy Conflicts (Dec. 17, 1980)
GAO/HRD-78-54	Legislation Needed to Encourage Better Use of Federal Medical Resources And Remove Obstacles to Interagency Sharing (June 14,1978)
GAO/MWD-76-117	Policy Changes and More Realistic Planning Can Reduce Size of New San Diego Naval Hospital (Apr. 7, 1976)

VI. GAO CONTACT

David Baine 275-6207

HOSP 3 and OSD 29: CENTRALIZED MANAGEMENT OF THE MILITARY HEALTH CARE SYSTEM

I. PPSSCC ISSUE AND SAVINGS

Should a central entity be developed by the Department of Defense (DOD) that would be responsible for the centralized management and administration of the three separate military medical services and the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS)?

Cost savings from creating such an entity are estimated at $744.7 million in HOSP 3 (direct care system) and $943.3 million in OSD 29 (direct care plus CHAMPUS) over a three year period.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO agrees with the PPSSCC issue and recommendations that more cooperation and, in many cases, more coordination among military medical services and/or CHAMPUS is needed to ensure that medical resources and expenditures are efficiently utilized. In an August 16, 1979 report, GAO reported on a variety of problems which, in part, could be attributed to the unclear mission and role of the military medical care system as a peacetime health care delivery system as well as an instrument of national defense. GAO recommended that the Congress reevaluate the role and structure of the military medical care system and direct DOD to establish a structure to improve its ability to serve beneficiaries in peacetime.

With respect to the issue of whether DOD should create a Defense Health Agency as recommended by the PPSSCC, GAO did not formulate a position on any particular system needed to address those problems found in the 1979 report.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

Legislation may be necessary to create a Defense Health Agency. DOD has recently made some progress in centralizing management for the military medical services. In October 1984, a DOD directive was issued assigning to the Assistant Secretary of Defense (Health Affairs) responsibility for exercising oversight responsibility for all DOD health resources. The degree to which centralized management occurs for the military medical systems will evolve from the new directive.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC estimated that 5 percent of DOD's health care budget (exclusive of CHAMPUS costs) could be saved if a Defense Health Agency was created. Five percent was used, according to its report, because several studies "have consistently indicated that a 5 percent reduction in overall costs would immediately result" if such an agency was created.

These studies were not listed by the PPSSCC and GAO is not aware of any documentation of savings that might result through creation of a single health agency. A GAO literature search in 1982 found that, of the numerous studies made on this issue, none projected savings. GAO also questions whether a reduction in overall costs would occur in the near-term if a Defense Health Agency was created. Under the centralized management proposal discussed by PPSSCC, each service would retain its medical personnel and medical treatment facilities. This structure could increase costs if additional personnel were needed to staff a Defense Health Agency.

V. RELEVANT GAO REPORTS

GAO/HRD-81-67	Will There Be Enough Trained Medical Personnel In Case Of War? (June 24, 1981)
GAO/HRD-81-5	DOD Needs Better Assessment Of Military Hospitals' Capabilities To Care for Wartime Casualities (May 19, 1981)
GAO/HRD-80-76	The Congress Should Mandate Formation Of A Military-VA-Civilian Contingency Hospital System (June 26, 1980)
GAO/HRD-79-10	Military Medicine Is In Trouble: Complete Reassessment Needed (Aug. 16, 1979)

VI. GAO CONTACT

David Baine 275-6207

OSD 28: THE CIVILIAN HEALTH AND MEDICAL PROGRAM OF THE UNIFORMED SERVICES (CHAMPUS)

I. PPSSCC ISSUE AND SAVINGS

The PPSSCC stated that the Department of Defense (DOD) should require modifications to the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS) in order to reduce the steadily increasing CHAMPUS costs. It recommended that the issuance of nonavailability certificates be prohibited for beneficiaries in the hospital catchment areas, except for emergency care and for certain psychiatric care. (A catchment area is the geographic area within a 40 mile radius of the hospital.)

Savings are estimated to be about $1.2 billion over three years.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATION

CHAMPUS coverage is generally provided for inpatient treatment within the catchment area of a military hospital -- the area from which a hospital draws its patients -- for care that is not available in the direct care system or that must be provided on an emergency basis. The PPSSCC report provides general statistics indicating underutilization of military hospitals and states that the direct care system has the capacity to absorb additional patients from CHAMPUS.

Several studies, including GAO work, have reported that the military hospital system, especially at smaller hospitals, does not have the proper mix of physician specialties and support staff nor adequate facilities and equipment to meet all the demands placed on it. GAO believes that until it is demonstrated that DOD hospitals would be able to absorb the resulting additional workload, a blanket recommendation to prohibit issuance of nonavailability certificates (authorizations for beneficiaries to use the CHAMPUS program because of the unavailability of required services in a military facility) may be questionable.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC recommendation could be implemented without additional legislative authority. However, it should be noted that this recommendation to require more use of the military health care system conflicts with Issue HOSP 1 which encourages more use of the private sector health care system.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC calculated savings on the assumption that all health care (except emergency and certain psychiatric treatment) needed by beneficiaries living within 40 miles of a military hospital could be provided in such facilities. GAO does not believe that the assumption made by the PPSSCC in determining estimated savings is valid because no determination was made to assess the capability of the military hospitals to absorb the additional workload.

Finally, the savings estimate was not adjusted to reflect additional costs such as drugs, supplies and other services that the DOD direct care system would incur as a result of treating more patients. See GAO comments on issues HOSP 8 and HOSP 9.

V. RELEVANT GAO REPORTS

GAO/HRD-81-75	New Claim Forms and Changes In Administrative Procedures May Increase Improper CHAMPUS Payments (May 15, 1981)
GAO/HRD-81-38	Performance Of CHAMPUS Fiscal Intermediaries Needs Improvements (Feb. 2, 1981)
GAO/HRD-79-107	Military Medicine Is In Trouble: Complete Reassessment Needed (Aug. 16, 1979)
GAO/HRD-79-24	Savings To CHAMPUS From Requirement To Use Uniformed Services Hospitals (Dec. 29, 1978)

VI. GAO CONTACT

David Baine 275-6207

HOSP 10: MEDICAL CARE COST RECOVERY BY THE DEPARTMENT OF DEFENSE

I. PPSSCC ISSUE AND SAVINGS

"Can the Department of Defense (DOD) improve its procedures for recovering the cost of medical care from third-party payers?"

The PPSSCC estimates an additional $68.5 million can be recovered over three years if improvements and changes are made in the DOD recovery process.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The recommendations in this issue are directed toward recovery of costs of medical care provided by DOD to beneficiaries as a result of the negligence or irresponsibility of a third party. The PPSSCC proposes a series of recommendations to enhance the efficiency of the collection process, including recommendations that DOD should:

--revise medical care information forms to more effectively gather necessary information and require patients to complete these forms before leaving the hospital;

--establish a central claims authority;

--provide incentives for effective medical care cost recovery, such as those used in contracts with CHAMPUS fiscal intermediaries, to reward superior performance;

--develop a cost system to better reflect the cost of medical care; and

--continue to pursue reimbursement through mandatory insurance.

PPSSCC further recommended that Congress amend the Federal Medical Care Recovery Act to (1) permit reimbursement from mandatory insurance programs such as workmen's compensation and no fault insurance and (2) eliminate exclusionary clauses in insurance contracts -- clauses that generally prohibit reimbursement where medical care is rendered at no cost to the patient.

GAO generally supports recommendations that would enhance DOD's ability to recover medical care costs.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The actions proposed by the PPSSCC to enhance the efficiency of the collection process can be initiated by the Secretary of Defense. Elimination of exclusionary clauses in private health insurance contracts would, however, require legislation. The House of Representatives considered two bills (H.R.4666 and H.R. 5372) during the 98th Congress to prohibit exclusionary clauses in medical health insurance contracts. No final action was taken on these bills before Congress adjourned. In addition, DOD is attempting to improve the Uniform Chart of Accounts -- DOD's cost accounting system for the military health care system -- to better reflect the cost of health care.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

Although GAO believes there are potential savings, the PPSSCC estimates are not supported by factual evidence which GAO could corroborate. The estimated increase in medical cost recoveries appears to come from estimates provided by claims officers with whom the PPSSCC spoke. GAO also notes that one of the problems which the PPSSCC pointed out was a lack of staff to handle the collection claim caseloads. It does not appear that the PPSSCC reduced the savings to reflect a possible increase in staff and resources.

V. RELEVANT GAO REPORTS

GAO/HRD-82-49	Stronger VA and DOD Actions Needed to Recover Cost of Medical Services Provided to Persons with Work-Related Injuries or Illnesses (June 4, 1982)
GAO/FGMSD-77-8	Uniform Accounting and Workload Measurement System Needed for Department of Defense Medical Facilities (Jan. 17, 1978)
GAO/HRD-77-132	New Strategy Can Improve Process for Recovering Certain Medical Care Cost (Sept. 13, 1977)

VI. GAO CONTACT

David Baine 275-6207

OSD 30: HEALTH CARE COST CONTAINMENT

I. PPSSCC ISSUE AND SAVINGS

"The Department of Defense (DOD) should introduce more effective cost containment measures in the military health care system by requiring that patients pay a greater portion of health care costs. Specifically, this would include charging for outpatient visits at direct care facilities, increasing the deductible for outpatient visits covered by the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS), and increasing co-payments for inpatient visits at direct care facilities and in-patient visits covered under CHAMPUS." PPSSCC also recommended "that DOD prioritize the full implementation of the Defense Enrollment Eligibility Reporting System (DEERS)."

The PPSSCC estimated three-year savings of $933.7 million from requiring patients to pay a greater portion of costs. No estimated savings were provided in connection with full DEERS implementation.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO believes that the user fee issue merits study. Based on the information presented in its report, however, the PPSSCC's assumptions, estimates, or conclusions may not be valid. For instance, it provides little rationale for choosing to recommend a fee amount of $10 per outpatient visit or a maximum of $100 per year for such visits. In addition, it alleges unnecessary use of outpatient services and presumes that a fee will affect such usage, but provides no support for the existence of the undesired use nor the causal link between user fee and unnecessary use.

PPSSCC's analysis does not factor in (1) decreased use due to institution of a fee; (2) potential cost-savings possible from decreased use; and (3) the potentially significant costs of imposing and administering fee collection. In addition, its use

of a 25 percent factor to reduce gross visits over the recommended maximum, i.e., 10 visits per person per year, is undocumented and seems much too large. PPSSCC's analysis did not consider the effect of a direct care user fee on CHAMPUS use, which in turn would affect both CHAMPUS costs and direct care costs. For the above reasons, GAO has no basis to comment on the PPSSCC recommendation in OSD 30 to increase the deductible for outpatient CHAMPUS visits concurrently with instituting a $10 user fee.

PPSSCC's recommendation in OSD 30 to prioritize the full implementation of DEERS is consistent with those contained in GAO's December 1982 report on the DEERS system and with which DOD generally concurred and either had taken or planned corrective actions.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The Secretary of Defense currently has sufficient statutory authority under 10 U.S.C. 1078 (b) to charge a user fee to discourage excessive use of outpatient services at military direct care health facilities by dependents of active duty military members and retirees. One of the legal issues being addressed by an ongoing GAO review of this issue is whether there is statutory authority to allow user fee charges for retirees.

GAO concurs with the PPSSCC observation that legislation would be required to increase current CHAMPUS deductibles for active duty dependents and retirees and their dependents. The PPSSCC appears to make contradictory statements concerning the status of authority for increasing direct care inpatient charges. In one sentence the PPSSCC states that the Secretary of Defense under the authority of 10 U.S.C. Section 1078 should prescribe the increase in co-payments for inpatient care for active duty dependents and dependents of retirees in military treatment facilities discussed previously. In the following sentence it states that DOD should seek legislation to increase the admission charge for inpatient care for active duty dependents. We believe that the Secretary of Defense has the authority under 10 U.S.C. 1078 to increase inpatient charges paid by dependents.

DOD generally concurred with GAO's 1982 report on the status of the DEERS system in preventing unauthorized persons from obtaining military health care benefits and providing demographic data that will improve military health care resource planning. DOD has taken or plans to take corrective actions.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

Due to PPSSCC's questionable assumptions and estimates, GAO believes PPSSCC's savings estimates may be overstated.

V. RELEVANT GAO REPORTS

GAO/HRD-83-155	Verifying Eligibility for Military Health Care: Some Progress Has Been Made, But Reliability Problems Remain (Dec. 1, 1982)

VI. GAO CONTACT

David Baine 275-6207

HOSP 8: REDUCING MEDICAL SUPPLY INVENTORIES IN THE FEDERAL HOSPITAL SYSTEM

I. PPSSCC ISSUE AND SAVINGS

Can the costly practice of maintaining medical supply inventory depots by the Veterans Administration (VA) and Department of Defense (DOD) hospital systems be eliminated?

PPSSCC has estimated that $141.2 million could be saved in year 1, $147.4 million in year 2, and $188.7 million in year 3 by closing VA medical supply depots, maintaining DOD medical supply depots for military-unique items only, broadening the negotiation and use of national contracts to preclude time-consuming local negotiations, and supporting a procurement practice that uses automated ordering systems with direct delivery from manufacturers rather than a depot system.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

PPSSCC made nine recommendations aimed at reducing depot inventories of medical supplies for both VA and DOD with the goal of closing VA depots and maintaining a maximum of $100 million of military-unique items in DOD depots. Depots would be replaced by nationally negotiated contracts against which individual hospitals would order. Supplies would be delivered directly from the manufacturers. The recommendations include introducing management objectives to ensure implementing the inventory reductions and depot closings, requiring the use of a "cart system" to maintain control of inventories in hospital user areas, and halting planned renovation of the VA Depot at Hines, Illinois.

GAO has not addressed the question of eliminating the VA depot system and limiting the DOD depot system to storing military-unique items. As a result, GAO has no basis for commenting on the feasibility of implementing the PPSSCC recommendations. GAO has, however, recommended reducing depot inventories of medical items for both VA and DOD. In a report to the VA Administrator, VA Should Use Economic Order Quantity Principles in the Wholesale Supply System (GAO/PLRD 82-108, August 18, 1982), GAO recommended using Economic Order Quantity (EOQ) principles in computing wholesale inventory order quantities and reducing excess inventories compatible with EOQ principles. In a report Better Controls and Data Needed to Distribute Defense Medical Supplies (LCD-80-77, June 25, 1980), GAO identified excess medical supply inventories and recommended reducing medical supplies and improving control over perishable items. VA generally agreed with the report's recommendations. DOD, however, responded that the high incidence of outdated perishable stock resulted from causes beyond its control.

GAO has not addressed the question of limiting the maximum value of DOD inventory to $100 million of military-unique items based on current inventory. However, the recommendation implies two assumptions which would need to be examined. First, that existing inventories are sufficient to meet wartime requirements and, second, that there are no non-unique items whose wartime requirements exceed short-term production capacity.

GAO has reported on the need for DOD to better control local procurements and has suggested alternatives which include central purchasing or field purchasing under central contracts. In addition, implementing GAO recommendations in the above-mentioned report aimed at reducing VA inventories could have eliminated the need to renovate the Hines Depot.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

For those recommendations discussed above, GAO agrees with the PPSSCC view that executive rather than legislative action would be adequate for implementation. However, GAO is unaware of any action that has been taken to implement the specific recommendations.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

With the exception of the recommendation to halt renovation of the Hines Depot, GAO has no basis for determining whether the savings estimated by PPSSCC are realistic. In the case of the Hines renovation, VA officials told GAO that the renovation was completed in October 1984.

V. RELEVANT GAO REPORTS

GAO/PLRD 82-108	VA Should Use Economic Order Quantity Principles in the Wholesale Supply System (August 18, 1982)
GAO/LCD 80-77	Better Controls and Data Needed to Distribute Defense Medical Supplies (June 25, 1980)

VI. GAO CONTACT

Kenneth J. Coffey 275-5140

HOSP 9: REDUCING THE AMOUNT OF FEDERAL HOSPITAL COST SPENT ON THE OPEN MARKET FOR MEDICAL SUPPLIES

I. PPSSCC ISSUE AND SAVINGS

Can the costly practice of spending between 38 and 42 percent of the total federal hospital medical supplies budget on the open market be reduced to the 15 to 25 percent normally spent by private sector hospitals?

PPSSCC has estimated that $67 million could be saved in the first year or $221.8 million over 3 years.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

To address the issue of DOD and VA spending between 38 and 42 percent of the total hospital medical supplies budget on the open market, PPSSCC made five recommendations. GAO agrees with the merits of three and has no basis for commenting on two of the recommendations. The recommendations and GAO analysis are discussed below.

In reviewing DOD and VA purchases of medical supplies, the PPSSCC found that the percentage of local purchases have grown from about 10 percent in the early 1960s to the current level of about 40 percent. PPSSCC indicated that the increase in local purchases may stem in part from allowing physicians greater individual choice of medical supplies purchased to encourage their remaining in government service, a policy that was instituted in the early 1970s after the draft was eliminated.

PPSSCC also found that neither VA nor DOD has a procurement data system that shows how frequently hospitals elect to buy medical supply items on the open market that could otherwise be obtained under existing national contracts. VA is able to obtain overall statistics, but there is a distinct lack of specific procurement information on all local purchases. DOD similarly lacks information on local purchases. While DOD officials indicated that 38 percent of their total medical supplies were obtained by local-level open-market purchases, a survey by PPSSCC revealed that 62 percent were made by the local hospital or through local base procurement. While some portion of these purchases may be placed against national contracts, there is not enough data to accurately isolate all locally negotiated buys.

PPSSCC has recommended that VA and DOD identify items that should be added to national contracts, compare federal and private sector national contracts because of the greater success the private sector has had in negotiating the contracts, improve ADP programs and methods to better accumulate data, increase the use of national contracts, and establish

an implementation task force to implement greater use of national contracts.

GAO agrees that identifying items for inclusion in national contracts, comparing federal national contracts to private sector contracts, and increasing the use of national contracts all have merit as ways to improve medical supply purchasing. GAO has previously noted that inadequate information is one of the factors that hampers efforts to control local purchases. GAO has also recommended increased control over local purchases and increased use of centralized procurement. Further, GAO agrees that comparison of federal to private sector contracts could provide useful information especially if the private sector has been substantially more successful than the federal sector in negotiating these contracts as is indicated by PPSSCC.

GAO has no basis for commenting on the PPSSCC recommendations for establishing an implementation task force and improving ADP programs and methods. However, it is not clear how a temporary task force would be given authority to direct agency actions, particularly on aspects which impact on DOD's national security responsibilities. Further, the recommendation for improving ADP programs and methods has implications far beyond the work associated with national contracts since it would address information needs for the entire medical supply area.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees generally that the recommendations could be implemented through executive action on the part of VA and DOD. However, whether a joint task force would need additional authority to direct agency actions is unclear.

GAO is unaware of any actions that have been taken to implement the PPSSCC recommendations by either DOD or VA.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

PPSSCC has estimated a 3-year savings of $221.8 million. GAO has no basis for evaluating the projected savings. PPSSCC has noted, however, that local purchasing is caused in part by the policy which allows physicians greater individual choice of medical supplies. This policy is based on the need to retain physicians in the government without being able to compete with private sector physician pay. While implementation of the recommendations may result in the savings, these savings may be offset by the need to provide some additional inducement for physicians to remain in federal service.

V. RELEVANT GAO REPORTS

GAO/LCD 80-77	Better Controls and Data Needed to Distribute Defense Medical Supplies (June 25, 1980)
B-164031(a)	How to Improve the Procurement and Supply of Drugs in the Federal Government (December 6, 1973)

VI. GAO CONTACT

Kenneth J. Coffey 275-5140

ARMY 8: STAFFING MANDATED PROGRAMS

I. PPSSCC ISSUE AND SAVINGS

Can the Army improve its management of programs that deal with various social, environmental, and energy programs?

Some additional involvement of line management might make management of these programs more effective, as well as provide limited opportunities for cost savings if some staff involvement could then be reduced.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC examined the number of Army personnel involved in four mandated programs (EEO, OSHA, Environmental Protection, and Drug and Alcohol Abuse), comparing these numbers to a survey of ten large U.S. manufacturing companies. They found that the Army devotes far more people to these programs than do private sector firms. The PPSSCC concluded that, although there are differences between the Army and the private sector which could explain some of the disparity, the Army could reduce some staff positions if it increased the role of line managers in these areas.

While GAO cannot disagree with the recommendation that the Army explore opportunities to increase line management involvement in these programs, GAO does not believe that the PPSSCC analysis which led to that recommendation has made the case. The PPSSCC analysis did not show a full appreciation of the military's involvement in the off-duty lives of its personnel.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The implementation authority for this PPSSCC recommendation lies within the Department of the Army. GAO is unaware of any action currently being taken or considered.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC did not cite any savings associated with this issue.

V. RELEVANT GAO REPORTS

None.

VI. GAO CONTACT

Kenneth J. Coffey 275-5140

ARMY 9: LEARNING RESOURCE CENTERS

I. PPSSCC ISSUE AND SAVINGS

Should the Learning Resource Center Program be continued?

PPSSCC estimated that $10.2 million could be saved annually and $33.7 million over three years if this program were terminated.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC's report says that the Learning Resources Center Program began in 1978. There are over 125 courses ranging from introductory accounting (140 hours) to time management (28 minutes) at 25 Learning Resource Centers. The Army plans to add 19 additional centers. The report also says that the Assistant Deputy for Resources and Management considers it an excellent program for self-development, and staff at the Office of the Deputy Chief of Staff for Personnel say that the program is intended to be used only by employees on their own time, but is more often used on Government time.

GAO has not evaluated the Learning Resource Center Program and, therefore, has no opinion on the merit of the PPSSCC recommendation to cancel the program immediately.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC recommendations could be implemented within existing executive authority (Army). Since GAO has not evaluated the Learning Resource Center Program, its status is unknown to GAO.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

PPSSCC estimated $10.2 million could be saved the first year and $33.7 million over 3 years by terminating this program. The PPSSCC estimated savings is computed over a 3-year period using a 10 percent inflation factor which is well above the 5-6 percent experienced over the last 2-3 years.

Other than the inflation assumption, the information and cost data PPSSCC used were from the Army Material Command and appears reasonable. However, since GAO has not evaluated this program GAO has no opinion on the merit of the estimated savings.

V. **RELEVANT GAO REPORTS**

None.

VI. **GAO CONTACT**

Kenneth J. Coffey 275-5140

FEED 5: TROOP FEEDING SERVICES

I. PPSSCC ISSUE AND SAVINGS

"Are there ways to reduce the cost of Department of Defense (DOD) troop feeding? An estimated $50.5 million could be saved in the first year, $55.6 million in the second year, and $61.2 million in the third year, for a three-year total of $167.3 million." These savings would result largely from reducing (1) the amount of food wasted due to overbudgeting and (2) the unauthorized use of meal services.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

A 1981 GAO report (PLRD-82-3) concluded that DOD's Food Service Program needs contracting and management improvements. In this regard, GAO found (1) contracting problems, (2) the basic food allowance fosters lax accountability and potential wasteful consumption, and (3) a need for greater control at the Pentagon.

GAO generally agrees with three of the PPSSCC's four recommendations to reduce the cost of DOD troop feeding and improve the management of the program. These recommendations are as follows:

--replace the Basic Daily Food Allowance with a budget costing factor which is more closely related to what is actually served;

--speed development of a uniform management information system for feeding which would accurately monitor food purchases and use, as well as labor, transportation, and overhead costs associated with feeding operations; and

--develop a separate budget and accounting category for feeding.

PPSSCC also recommended better controlled access to food service by extending the identification card system now being tested to all dining facilities as soon as feasible. GAO is not in a position to endorse the specific identification card system proposed by the PPSSCC. GAO believes the system should be pilot tested before full implementation.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

All the recommendations can be implemented by DOD, with the exception of the first one, which would require congressional action. Implementation of three of the four recommendations seems feasible. As mentioned above, GAO

is not in a position to comment on the feasibility of the identification card system before it is pilot tested.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC's savings estimate appears to be reasonable. In its report on DOD's Food Service Program (PLRD-82-3), GAO found that the weighted-average cost per pound of meat in the food cost index was 35¢ per pound higher than the amount actually served. Since 13.4 ounces of meat per person per day is budgeted, nearly 30¢ per person per day is overbudgeted. The PPSSCC arrived at this same overbudgeted 30¢ per person per day by a different set of calculations. In its survey of major private sector feeding firms, the PPSSCC determined that the average daily cost of raw food for college students was $2.66--91¢ per day less than the average raw food costs for enlisted personnel. Because of differences between the two populations, the PPSSCC conservatively estimated that DOD overbudgets 30¢ per person per day.

V. RELEVANT GAO REPORTS

GAO/PLRD-82-3 Department of Defense Food Service Program Needs Contracting and Management Improvements (October 20, 1981)

IV. GAO CONTACT

Paul Math 275-4587

R&D 7: NASA COST REPORTING

I. PPSSCC ISSUE AND SAVINGS

Can project management in the National Aeronautics and Space Administration (NASA) be strengthened by expanding the scope and coverage of the systems used to manage NASA resources, to include civil service personnel?

The PPSSCC believes that the recommendation presented in this issue will permit NASA to improve the overall management of the agency. No specific savings are attributed to this management improvement.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO concurs with the PPSSCC's recommendation that NASA should expand the systems used to manage NASA projects to cover all resources available to it, including the costs for civil service personnel. The PPSSCC shows this as primarily a management improvement issue but suggests economies are possible if NASA would plan, monitor, and control its internal resources to the same degree it does its money for contractual services. GAO agrees. Realistic cost estimates are indispensable to both the Congress and NASA management throughout the entire project planning, approval, and development process because they provide a better basis for deciding what projects are to be developed, continued, modified, or stopped.

GAO has reported it is necessary to include all costs which are directly identifiable with a project in order to fully show the total economic impact a project has on the overall NASA budget. In a July 1975 report, GAO recommended that the NASA Administrator provide for summarizing and reporting costs to the Congress, including the project cost and all additional costs directly identifiable with the project. Similar recommendations were included in GAO reports issued in 1977 and 1980.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS.

GAO believes the NASA Administrator can readily implement the suggested project cost reporting improvements. Costs for civilian personnel are periodically allocated by NASA field centers to the various projects, and could be identified by project during the budget process.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

This is a management improvement issue and the PPSSCC did not identify specific savings that can be attributed to the recommendation.

V. RELEVANT GAO REPORTS

GAO/PSAD-75-90	Need For Improved Reporting And Cost Estimating On Major Unmanned Satellite Projects (July 25, 1975)
GAO/PSAD-77-54	Improved Reporting Needed On National Aeronautics and Space Administration Projects (Jan. 27, 1977)
GAO/PSAD-80-15	NASA Should Provide The Congress Complete Cost Information On The Space Telescope Program (Jan. 3, 1980)

VI. GAO CONTACT

Harry Finley 275-4268

ARMY 7 AND EX 10: MILITARY ACCRUED LEAVE PAY

I. PPSSCC ISSUE AND SAVINGS

Is it appropriate for new recruits who do not complete six months of service to receive accrued leave pay?

Defense-wide cost savings from not allowing new recruits to become entitled to accrued leave benefits until they have shown minimum suitability for military service would be about $9.4 million over 3 years (assuming a 10 percent inflation factor).

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

Data shows that about 9 percent of new Army recruits (but a smaller percentage of recruits from other services) leave the service before completing 6 months of duty. Currently such individuals are entitled to 2.5 days leave for each month served and, if discharged early for unsuitability, are paid for any unused leave. The PPSSCC recommended that new recruits be required to serve at least 6 months before becoming entitled to accrued leave benefits. In GAO's opinion, this recommendation would not hurt recruiting since new recruits expect to serve a minimum 3-year tour when they initially enlist. GAO believes, therefore, that this recommendation should be adopted.

Attrition of first-term enlisted personnel--that is, separation from service before completing their tours--has been a serious and costly problem of the All-Volunteer Force. While the dimensions of the problem vary from time-to-time depending on factors such as recruit quality and the public's attitude toward the military, GAO has estimated that during fiscal years 1974 through 1977 about $5.2 billion was lost through early attrition. This loss resulted from unrecovered training investment, higher recruiting and salary costs, veteran's benefits, and unemployment compensation. The PPSSCC proposal is one way to recover a small portion of the high cost of early attrition.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC assessment that a change in legislation was required to implement this recommendation. Such legislation was enacted as part of the Department of Defense Authorization Act, 1985, (Public Law 98-525, sec. 606; October 19, 1984). The act amended 37 U.S.C. 501(e) to authorize the Service Secretaries to require that those who enlist on or after the date of the act, will forfeit all accrued leave if discharged for failure to serve satisfactorily

before completing 6 months of active duty service. Therefore, statutory authority now exists for the Secretaries to issue regulations to implement the recommendation.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The estimated savings appears reasonable, but may be slightly overstated because (1) experience has shown that the 10 percent inflation factor used by PPSSCC is too high, and (2) attrition rates tend to fluctuate depending upon unemployment rates and recruit quality. Recruit quality has been up recently and early attrition has decreased over the base year (1981) used by the PPSSCC.

V. RELEVANT GAO REPORTS

GAO/FPCD-80-10 Attrition in the Military--An Issue Needing Attention (February 20, 1980)

VI. GAO CONTACT

Kenneth J. Coffey 275-5140

OSD 27: UNUSED LEAVE AT RETIREMENT

I. PPSSCC ISSUE AND SAVINGS

Should the Department of Defense seek legislation to require that the effective date for the commencement of retirement pay be deferred until retiring members have received compensation for any accumulated unused leave? This restriction should apply only in cases of nondisability retirement.

The PPSSCC estimated that this recommendation would save $125.6 million over a 3-year period.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC recommended that the effective date for beginning to pay military retirement benefits be moved forward from the active duty termination date by the number of days of accumulated unused leave. The PPSSCC said that this would ensure that a retiring member does not receive retired pay for a period during which he or she is also eligible for active duty pay.

GAO believes that this recommendation should not be implemented. If a recommendation such as this were to be implemented, it is very likely that most members contemplating retirement would remain on the active duty rolls until the unused leave had been used, during which time they would continue to earn additional leave. Consequently, under the current retirement system's benefit formula, implementation of this recommendation would, over the long term, cost the government money rather than result in savings. This is because individuals continue to earn retirement credits and additional leave while on terminal leave. For example, if a Lieutenant Colonel or Navy Commander remained on the active duty rolls for an additional 1.4 months--the average unused leave at retirement--the "savings" resulting from delayed retirement payments would be $2,412. However, the present value of retired pay credits earned while using up terminal leave--based on actuarial assumptions--is $2,878.00, for a net cost to the government of $466 for this one individual.

Also, in most cases, in addition to basic pay, military personnel are entitled to basic allowance for quarters and for subsistence while on terminal leave. However, if the member receives a lump-sum payment for accrued leave at the time of discharge, the payment is based on basic pay alone (37 U.S.C. 501(b)(1)). Thus, it may be more appropriate to prohibit the practice of placing a member on terminal leave rather than requiring a member to remain on active duty as the PPSSCC proposed.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC recommendation would require legislation to be implemented. Legislation has not been introduced.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC said that the simultaneous payment of accumulated unused leave and retired pay results in duplicate compensation to the retiring member for a period equal to the length of unused leave. However, the PPSSCC analysis did not take into account that retirement credits and additional leave would continue to be earned while individuals use up their accumulated unused leave, or that members would continue to receive subsistence and housing allowances while on terminal leave. Our analysis indicates that the present value of the additional retirement credits earned while on terminal leave exceeds the cost of "buying-out" the individual's unused leave. Thus, the PPSSCC proposal may result in additional cost rather than savings to the government.

V. RELEVANT GAO REPORTS

None.

VI. GAO CONTACT

Kenneth J. Coffey 275-5140

OSD 34: SELECTIVE REENLISTMENT BONUS PROGRAM

I. PPSSCC ISSUE AND SAVINGS

Should payments under the selective reenlistment bonus (SRB) program be restricted to those skill areas manned at less than 100 percent of desired levels, and should SRB payments be eliminated for those members with 10 or more years of service?

PPSSCC estimated that its three specific recommendations under this issue would save $625.6 million over a 3-year period in the Navy and Marine Corps.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC made three recommendations for this issue:

--That management of the SRB program, including the criteria employed in designating skill areas eligible for payments, be redirected toward eliminating payments in those areas not experiencing retention problems, and that the services act more rapidly to remove skill areas from eligibility once a retention problem has been resolved.

--That the effectiveness of SRB payments in skill areas not involving high technology training costs be reevaluated.

--That payments to those in zone C be eliminated.

GAO believes that the first two recommendations have merit; however, these criteria have been included in DOD's SRB management guidance since the program's inception. While closer adherence to DOD guidance would result in some savings, it is very doubtful that a perfectly managed program would result in the large savings suggested by the PPSSCC. Essentially, these two recommendations call for the services to manage better; that is, to continue following DOD guidelines for managing the SRB program, but to do it better. GAO supports better management and has made numerous recommendations for improvements.

In GAO's opinion, the PPSSCC proposal that authority to pay zone C bonuses be immediately discontinued has no merit and should not be implemented. However, due to the high marginal cost of zone C bonuses, the services should closely monitor their use. Zone C bonuses are paid to people with 10 through 14 years of service who are in shortage occupations or in occupations with inadequate retention rates. For most occupations, retention rates are in the high 90 percent range for people beyond the 10 year-of-service point. This aggregate view would indicate that zone C

bonuses are unnecessary. However, an examination of retention rates for individual occupations indicates that some fall below the levels needed. GAO has found that the marginal cost of selectively paying zone C bonuses can be less than the cost of replacing the individuals; however, because the marginal cost is high, GAO believes that the services should be very judicious in exercising the authority to pay zone C bonuses.

While GAO and others have recommended specific improvements in SRB program management, it is equally important to note that GAO's prior and ongoing reviews of the SRB program have found it to be among the most closely managed and cost-efficient compensation programs the services use to retain people in occupations with critical shortages. On several occasions, GAO has urged the services to make more extensive use of targeted incentives, such as bonuses, instead of across-the-board pay raises, as a more efficient way to solve specific recruiting and retention problems.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC stated that authority to implement its SRB proposals rests with the Secretary of Defense. GAO agrees with this assessment.

While GAO knows of no current DOD plans to take specific action on the PPSSCC recommendations, DOD's Fifth Quadrennial Review of Military Compensation (January 1984) did evaluate the cost-effectiveness and usefulness of this program, including the zone C bonuses. This report concluded, as GAO has, that the program is generally an efficient compensation incentive. This report stated, however, that while zone C bonus authority should be continued, if reenlistment behavior of the past several years continues, the services should recognize that zone C bonuses are marginally effective at best and may be ineffective relative to other factors that influence reenlistment decisions beyond 10 years of service. The report suggested that zone C bonuses should not be used when economic and retention conditions are like the conditions which existed through January 1984 (the date of the report).

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC stated that by eliminating SRB payments in zones manned at 100 percent, the Navy alone could save $110.4 million in fiscal year 1983, and that by discontinuing zone C payments it could save another $37.6 million, a total 1-year savings in the Navy of $148 million. The Navy's fiscal year 1983 SRB budget was $162.6 million; thus by these two actions, the PPSSCC stated that the Navy could reduce its SRB budget by over 91 percent.

While some savings can no doubt be accomplished through improved management techniques, GAO believes that savings of the magnitude cited by the PPSSCC are not possible. GAO's examination of Navy's SRB program indicates that it is carefully managed, and that judgments which must be made in setting bonus levels are supported by extensive and sound analysis. GAO's on-going evaluation of the Navy SRB program indicates so far that it does not pay bonuses in occupations that are 100 percent manned unless, on a career basis, it is cost-effective to do so, or in situations where this is necessary because of the expanding fleet. GAO generally agrees with the Navy that when manpower requirements are expanding, it is necessary to manage the SRB program against an out-year objective force profile in order to achieve the manning goals.

V. RELEVANT GAO REPORTS

Testimony	Military Compensation Issues, by Kenneth J. Coffey, National Security and International Affairs Division, before the Senate Committee on Armed Services, Subcommittee on Manpower and Personnel, on Military Compensation Issues. (April 7, 1983)
Testimony	Military Personnel Issues, by Kenneth J. Coffey, National Security and International Affairs Division, before the House Committee on Appropriations, Subcommittee on Defense. (April 21, 1983)
Testimony	Military Pay Raise and Enlisted and Aviation Officer Bonus Programs, by Kenneth J. Coffey, National Security and International Affairs Division, before the Senate Committee on Armed Services, Subcommittee on Manpower and Personnel. (August 10, 1982)
GAO/FPCD-82-70	Perspectives on the Effectiveness of Service Enlisted Bonus Programs. (August 23, 1982)

V. GAO CONTACT

Kenneth Coffey 275-5140

OSD 35: AVIATION CAREER INCENTIVE PAY

I. PPSSCC ISSUE AND SAVINGS

Should the Department of Defense limit payments under the Aviation Career Incentive Pay (ACIP) program to members who are serving on regular and frequent flight duty assignments, and should ACIP payments be reduced for members with more than 12 years of service?

The PPSSCC estimated that $261.2 million would be saved over 3 years--assuming a 10 percent inflation factor--if DOD (1) eliminated ACIP except for individuals actually performing operational or proficiency flying duty pursuant to orders, and (2) even for this group, reduced payments for individuals with more than 12 years of service.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO does not agree with the specific PPSSCC recommendation to eliminate ACIP except for individuals actually performing duties under orders; however, GAO believes that considerable savings might be attained by restructuring the ACIP program to conform more closely to the management needs and labor market demands associated with each aviation community; (i.e., jet pilots, prop pilots, helicopter pilots, and navigators).

The PPSSCC premised its recommendation on two assumptions: (1) that ACIP is paid for hazardous duty, and (2) that restructuring and changing the purpose of ACIP would have no effect on aviator retention patterns. GAO believes these assumptions to be incorrect. ACIP replaced "flight pay" in 1974, at which time the underlying purpose of such pay was changed to reflect the fact that flying duty was no longer as hazardous as it once was, and that competition for trained pilots by the airline industry was increasing.

Whereas the old "flight pay" was primarily compensation for hazardous duty, ACIP is primarily a career incentive pay. The concept behind ACIP was that, barring unforeseen circumstances, ACIP should be no more and no less than that needed to maintain an adequate aviator force at all officer grade levels and for all aviation specialties. This concept was supported by GAO in two previous studies concerning aviator pay (FPCD-82-56 and FPCD-80-31).

While the ACIP program may be less cost-efficient than it could be and may warrant some structural alteration, GAO does not believe that the specific recommendation of the PPSSCC should be adopted.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

According to the PPSSCC, authority to implement this recommendation resides with the Secretary of Defense. In GAO's opinion, any change in the ACIP program structure as proposed by the PPSSCC would require legislative action. Section 301a, 37 U.S.C., establishes ACIP as an entitlement, specifies the rates of pay, and prescribes the criteria for receiving this incentive pay. While the Secretary of Defense must establish implementing regulations, GAO believes that he has no authority to establish regulations which would contravene the specific requirements of the statute.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC savings estimate of $261.2 million over 3 years is premised on the assumption that aviator retention rates would not decline if individuals not performing actual flying duty were precluded from receiving ACIP. Experience has shown that this is a false assumption. During periods when aviation career pay failed to keep pace with what individuals can earn in the private sector, severe pilot shortages developed. Thus, GAO doubts that the savings estimated by the PPSSCC can be achieved by implementing its recommendations to eliminate ACIP for all aviators except those flying under orders. Since the cost of training one jet pilot currently exceeds $1 million, any savings achieved through reductions in ACIP would likely be offset--perhaps exceeded--by the increased training costs prompted by reduced pilot retention rates.

V. RELEVANT GAO REPORTS

GAO/FPCD-82-56 Millions Spent Needlessly in Navy and Marine Corps' Aviation Bonus Program (August 9, 1982)

GAO/FPCD-80-31 The Navy's Pilot Shortage: A Selective Bonus and Other Actions Could Improve Retention (February 15, 1980)

VI. GAO CONTACT

Kenneth J. Coffey 275-5140

USAF 4: AIR FORCE PAY

I. PPSSCC ISSUE AND SAVINGS

Is Air Force military pay competitive with pay in the private sector?

PPSSCC said that, although military pay is generally superior to pay in the private sector, the current pay system is difficult to understand because it is so complex. It said that this may contribute to personnel retention problems and the belief that the military is underpaid. To remedy this, the PPSSCC recommended that an annual summary information statement be given to each military member which would clearly show total yearly compensation, including tax advantages associated with various components of pay. This, they said, should promote a better understanding of the real value of military pay and benefits and might well increase retention levels. PPSSCC said that positive benefits and savings are likely to result from implementing their recommendation, but none were estimated.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The question raised by PPSSCC, i.e., is military pay competitive with private sector pay, is certainly a valid question, and one GAO is continuing to study. However, the PPSSCC analysis did not directly address this question. Instead, the PPSSCC recommendation focused on the issue of "pay visibility"; that is, whether military personnel understand and recognize the full value of their very complex total compensation package. In support of its concern about the visibility of military pay, the PPSSCC cited a GAO report (GAO/FPCD-77-20, August 1, 1977) and testimony given by GAO before the Senate Committee on Armed Services (May 8, 1981) and before the House Committee on Appropriations (June 1, 1981.

GAO also reported on the problem of pay visibility in 1975 (GAO/FPCD-75-172), 1977 (GAO/FPCD-77-20), and 1978 (GAO/FPCD-78-27). In these studies, GAO found that most military personnel underestimated the value of their total pay package by a substantial percentage, and concluded that the unrecognized amount does little to enhance recruiting or retention. GAO recommended that action be taken to help military members and potential members understand the full value of their compensation package.

Since DOD did not implement this recommendation, in 1980 the House Committee on Appropriations directed that, as a pilot program, the Air Force provide an annual statement to each service member quantifying the full value of that member's total compensation--including the value of

retirement benefits, health benefits, commissary and exchange benefits, the imputed tax advantage on untaxed allowances, et cetera. (See House Rept. 96-1317.) The Committee directive was implemented by the Air Force effective January 1982 (for calendar year 1981), and by the other three military services effective January 1983 (for calendar year 1982). While the services have already implemented this recommendation, subsequent research has not been done to determine whether the annual statements being distributed by the services have remedied the problem of pay visibility.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

As stated, the PPSSCC recommendation has been implemented.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

Neither PPSSCC nor GAO calculated an estimate of savings which would flow from service members having a better understanding of the value of their pay package.

V. RELEVANT GAO REPORTS

Testimony	The Proposed 14.3 Percent Military Pay Raise, by Kenneth J. Coffey, National Security and International Affairs Division, before the Subcommittee on Defense, House Committee on Appropriations, June 1, 1981.
GAO/FPCD-78-27	Need to Better Inform Military Personnel of Compensation Changes (July 12, 1978)
GAO/FPCD-77-20	Military Compensation Should Be Changed to a Salary System (August 1, 1977)
GAO/FPCD-75-172	Need to Improve Military Members' Perceptions of Their Compensation (October 10, 1975)

VI. GAO CONTACT

Kenneth J. Coffey 275-5140

USAF 7: AIR FORCE SEVERANCE PAY

I. PPSSCC ISSUE AND SAVINGS

Is the severance pay granted to officers for nonpromotion discharges fair and reasonable?

PPSSCC estimated that basing officer severance pay on one week's pay for each year of service (using basic military compensation as the base) instead of the current formula would save the Air Force $17.5 million over 3 years. (While this estimate includes only the Air Force, severance pay is available to all of the armed services.)

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

Separation pay is granted to regular officers--but not regular enlisted personnel--for nonpromotional discharges when the individual has had at least 5 but less than 20 years of service.[1] The current separation pay formula is 10 percent of annual basic pay for each year of service up to a maximum of $30,000. Based on current pay rates, most officers involuntarily separated for nonpromotion receive the maximum amount of separation pay. The PPSSCC stated that military severance pay is too generous when compared with private sector practice, and recommended that such pay be based on one week's pay (basic military compensation[2]) for each year of service, with no monetary maximum. The PPSSCC calculated that this change in the formula would result in average severance pay of about $8,700.

The PPSSCC recommendation is based on the observation that the military severance pay program is more generous than prevailing industry practices and the belief that the military program should more closely reflect private sector practices. However, the PPSSCC did not consider the fact that military retirement is not vested until 20 years of service whereas private sector pension plans are sometimes either partially or fully vested at 5 years of service and

[1]With enactment of the Defense Officer Personnel Management Act (Public Law 96-513, Dec. 12, 1980, 94 Stat. 2835, 2870) what was previously "severance pay" (for regular officers) and "readjustment pay" (for reserve members, including enlisted members with 5-years of continuous active duty) was for most purposes abolished, and "separation" pay was authorized in their place (10 U.S.C. 1174 (1982)).

[2]Basic Military Compensation (BMC) is defined as basic pay, basic allowance for quarters, basic allowance for subsistance, and the imputed tax advantage on the tax free allowances. BMC differs from Regular Military Compensation (RMC) in that the latter also includes variable housing allowance and overseas station allowance.

frequently fully vested at 10 years of service. The military contends that its more generous separation pay for officers partially offsets the lack of retirement vesting.

GAO reviewed the federal government's severance pay programs--civil service and military service programs--in 1978 (GAO/FPCD-78-68) and made some rough comparisons with private sector practices. GAO concluded that the civil service severance pay plan was generally about the same as the more liberal private programs, but that separation pay for involuntarily separated military officers was substantially better than either the more liberal private plans or the federal civil service plan. On the other hand, GAO concluded that the military's separation pay program treated regular enlisted members denied reenlistment unfairly in that they received nothing. (Although the PPSSCC's recommendations are generally aimed at having the military program conform with private sector practices, it did not address the inequitable treatment of regular enlisted personnel and did not recommend that they be included in the separation pay program.)

GAO's 1978 report concluded that severance pay should not be viewed as a substitute for retirement vesting in that different purposes are served by each. At that time, retirement reform legislation, which included 10-year vesting and a reduced severance pay formula--for officers and enlisted personnel--was pending before Congress. In light of this, GAO recommended that the uniformed services' severance pay program be revised to conform with the federal civilian severance pay program. GAO also recommended that enlisted members be included in the program. Retirement reform legislation, however, did not pass, and no action was taken on either GAO recommendation.

GAO supports the general thrust of the PPSSCC recommendation that the military's severance pay program be more closely aligned with private sector practices. However, GAO believes that any change in the program should be made in conjunction with changes to the retirement system. So long as military personnel are forced out of their careers as a result of the "up-or-out" promotion policy--a policy that requires them to be promoted after a specified period or to leave the service--after having generally invested many years of service, but short of 20, a somewhat more generous severance pay program than that offered in the private sector would seem justified. GAO also continues to support bringing enlisted personnel into the program.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC assessment that revising the separation pay program would require a change in law; however, the change would be to Title 10, United States Code, rather than Title 37. However, GAO does not believe that such a change should be made until and unless the military retirement system is modified to include vesting of benefits before 20 years of service.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO's analysis indicates that implementing this PPSSCC recommendation, without making other changes that would be necessary to ensure equitable treatment of military personnel, may result in savings in the range estimated by the PPSSCC. However, to be fully consistent with private sector practice, retirement benefits should be vested earlier than 20 years of service, and enlisted personnel should receive severance pay when terminated or refused reenlistment for nonpromotion. Both of these actions would substantially reduce the estimated savings, and might result in an overall cost increase to the government.

V. RELEVANT GAO REPORTS

GAO/FPCD-77-81	The 20-Year Military Retirement System Needs Reform (March 13, 1978)
GAO/FPCD-78-68	The Federal Government's Severance Pay Programs Need Reform (December 7, 1978)
GAO/FPCD-78-49	Need For Overall Policy and Coordinated Management of Federal Retirement Systems, Volume I (December 29, 1978)

VI. GAO CONTACT

Kenneth J. Coffey 275-5140

USAF 10: AIR GUARD AND RESERVE BONUS PROGRAM

I. PPSSCC ISSUE AND SAVINGS

Are the Air National Guard and Air Force Reserve enlistment and reenlistment bonus programs effectively administered?

While PPSSCC did not specifically recommend eliminating the bonus programs, it believed that the programs were unnecessary and estimated that if the programs were eliminated, 3-year savings would amount to $30.4 million--assuming a 10 percent inflation factor. It stated that significant savings would also be achieved if the programs were continued but applied in strict conformity with DOD guidelines.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC found that enlistment and reenlistment bonuses were being paid to fill vacancies in units without regard to criticality of the skill (contrary to DOD guidance and legislative criteria), that decentralization of the Guard program has permitted payment of bonuses to non-critical skill personnel, and that insufficient data are maintained to determine the cost-effectiveness of the programs. The PPSSCC therefore recommended that the cost-effectiveness of the programs be evaluated and that, if they cannot be justified on this basis, they be eliminated.

While GAO has not examined the Air Guard and Reserve bonus program, the conditions described in the PPSSCC report appear to be nearly identical to the conditions GAO found in the Army Guard and Reserve program. If these conditions are the same, then GAO agrees that the PPSSCC recommendation should be implemented. The legislative criterion for using selective enlistment and reenlistment bonuses is that bonuses be targeted to skills which have critical personnel shortages, taking into account training costs and retention rates. If the skill or occupation does not meet the criterion, bonuses should not be used.

GAO reviewed the Army National Guard and Reserve bonus programs (GAO/FPCD-83-10) and found that, although it is Army policy to target incentives to high-priority units and critical skills, over one-third of the incentives awarded went to persons in noncritical skills in low-priority units. This is the same situation the PPSSCC said was occurring in the Air Guard and Reserve bonus program. GAO recommended, and the Secretary of the Army agreed, to make eligibility criteria for bonuses more stringent and to evaluate the program's effectiveness.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC said that the Office of the Air Force Reserve and the Director of the Air National Guard have the authority to analyze the cost-effectiveness of the bonus programs, and that legislation is not required. GAO agrees with this assessment.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

While considerable savings should be achieved by applying more stringent criteria to the Air Guard and Reserve bonus program, the exact amount may be more or less than the PPSSCC 3-year estimate of $30.4 million. The estimate was based on eliminating the entire program and was calculated using the fiscal year 1982 bonus budget. The bonus budget fluctuates considerably from year-to-year depending upon particular manpower requirements, and it does not appear reasonable to assume that the 1982 budget is representative. Also, even if Air Force Guard and Reserve bonus program is managed in strict compliance with existing legislative criteria, it is unlikely that the program would be completely eliminated.

V. RELEVANT GAO REPORTS

GAO/FPCD-83-10 Army Incentive Funds Need More Effective Targeting to Reduce Critical Personnel Shortages (March 2, 1983)

GAO/FPCD-82-70 Perspectives on the Effectiveness of Service Enlisted Bonus Programs (August 23, 1982)

VI. GAO CONTACT

Kenneth J. Coffey 275-5140

FRS 1: RETIREMENT AGE (MILITARY)

I. PPSSCC ISSUE AND SAVINGS

Could federal retirement costs be substantially reduced by increasing the age at which unreduced pension benefits are available--from as early as 37 in the Military Retirement System--to the more typical private sector retirement at age 62?

The PPSSCC estimated that $4.519 billion could be saved in the first 3 years on a present value basis following full implementation.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

To understand and evaluate the PPSSCC recommendations regarding the military retirement system, it is necessary to first comment on the differing philosophical approaches used by DOD in justifying the current system and by the PPSSCC in recommending major changes to it. These differences were highlighted in the introduction to the PPSSCC report which stated that:

> "Retirement systems in both the public and private sectors are generally designed to fulfill three basic objectives--attracting, retaining and, ultimately, separating employees in a socially acceptable manner.
>
> While similar in objectives, public and private sector retirement programs differ considerably in the relative importance attributed to each objective and the specific program provisions by which these objectives are attained."

This difference in emphasis is clearly seen in the structure of the military retirement system. DOD contends that military retirement is first and foremost a force management tool designed to complement personnel management requirements, and only secondarily is it an old age pension program.

In contrast, the PPSSCC stated that providing for old age security should be the primary objective, as it is with private-sector retirement plans, and that force management should be a distant secondary objective. The PPSSCC contends that force management goals can be achieved more efficiently and effectively with adjustments in current active duty pay rather than in deferred compensation.

While differences between these two approaches may seem inconsequential at first glance, accepting either "force management" or "old-age security" as the controlling objective of the military retirement system becomes extremely important, first because each approach leads analysts to ask

a different set of questions; second, different conclusions will be reached on how the system should be structured; and finally, the total cost of military personnel--both current and deferred costs--will most likely be considerably different.

If, for example, one accepts the approach that military retirement should be used primarily as a force management tool, then the first questions analysts generally ask concerns the desired shape of the manpower force profile--usually displayed in a years-of-service distribution.

On the other hand, if providing for old-age security is accepted as the controlling objective, analysts generally focus on questions about what portion of preretirement income should be replaced by post-retirement income--from pensions and social security--and at what age individuals should begin drawing retired pay.

GAO has not taken a specific position on whether the military retirement system should be primarily a force management tool or an old-age pension. However, GAO has stated on numerous occasions that no element of the compensation package should be evaluated in isolation as has been frequently done by those on both sides of this question. GAO believes that tradeoffs must be analyzed, and that the total mix of compensation--including basic pay, allowances, bonuses, special and incentive pays, and retired pay--should be only great enough to attract, retain and motivate the number and quality of people the services need to carry out their respective missions. In other words, the overriding goal should be to implement that set of compensation and personnel policies that will result in the desired force--quantity and quality--at the least cost.

Most studies, including those done for DOD, have shown that active duty compensation, in one form or another, is generally more cost efficient as a recruiting and retention incentive than deferred compensation. Thus, GAO agrees that when force management concerns can be more efficiently addressed through adjustments to the various components of current compensation that this is the preferred course of action. However, since the retirement system is a major component of the total compensation package, and one of the most stable elements currently in the package, significant reductions, as recommended by the PPSSCC, would seriously affect retention of military personnel. Therefore, GAO believes that, while the thrust of PPSSCC proposals may have merit, the force manning concerns and the increased current compensation cost that would be necessary deserve considerably more analysis before any retirement system changes are made. The PPSSCC did not address these issues.

In keeping with its "old-age pension" approach, the PPSSCC made three recommendations associated with the retirement-age issue aimed at making the military system more consistent with private sector plans. These were that:

--Unreduced military retirement benefits should be available at age 62, or at age 55 if actuarially reduced. (This would apply only to new military personnel or those with less than 10 years of service.)

--Military retirement benefits should be vested after 10 years of service.

--In recognition of the services' claimed need for a "young and vigorous" force, DOD should determine the need for a 5-year transition payment for those retiring with 20 or more years of service (but short of age 62). Such a transition payment might be normal retired pay in the first year, with a progressive 20 percent reduction for each of the remaining four years.

Whereas GAO's analysis generally confirmed the similarity of the PPSSCC recommendations to private sector practices, the PPSSCC limited its analysis to pension plans and social security and did not consider the capital accumulation plans (profit-sharing plans, stock-ownership plans, and thrift plans, for example) that many private sector employers sponsor to provide additional retirement income to their employees. Thus, it considered only two parts of what is frequently a three-part retirement package in the private sector. While some form of a capital accumulation plan could be a part of the military package, such a plan is not now available as part of military service.

Further, since the PPSSCC did not consider the force manning implications of its proposals or evaluate the offsetting cost of increases in the current compensation component of the total pay package that would be needed, GAO cannot endorse its proposals as being sound policy for military personnel. Studies show that adoption of changes such as these, without counter-balancing changes elsewhere in the total compensation package, would put the military at a distinct competitive disadvantage in recruiting and retaining quality personnel. However, some variation of these proposals may be appropriate after the total cost and force manning implications have been analyzed.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

As the PPSSCC stated, legislation would be required before the proposals could be implemented. No such legislation has been proposed. If the legislation were enacted to implement these specific changes without making other major revisions to the overall compensation and personnel management systems, serious manpower problems could ensue.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC savings estimate of $4.519 billion is based on a multitude of economic and demographic assumptions--most of which were not stated in the PPSSCC report--which led to the conclusion that the changes would reduce the retirement system's entry-age normal cost[1] by 3.7 percent of payroll. The estimated savings was then calculated by applying the 3.7 percent reduction in entry-age normal cost to the projected payroll in the years 2001-03, discounted to 1983 at 6 percent a year; a very long-term cost savings. There would be no effect on outlays for at least 11 years because of the recommendation to grandfather those with more than 10 years of service.

While GAO believes that the PPSSCC recommendations, or some variation of them, probably would result in overall military personnel cost savings, the PPSSCC estimate appears to be overstated. Although sufficient data are not currently available to accurately estimate the cost savings, the following items were not taken into account by the PPSSCC:

--The PPSSCC did not deduct from its estimated savings the added cost resulting from its suggestion that 5-years of transitional payments be available to every retiree under its proposal.

--The added cost of its 10-year vesting recommendations was not calculated and offset against the overall savings estimate.

--The additional active-duty compensation costs which would be required to counteract retention losses resulting from reductions in retirement benefits were not calculated and offset against projected savings.

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[1]Entry-age normal cost is an actuarial term that represents the charge--expressed as a constant percentage of pay--that must be set aside each year to fund future retirement annuities that are earned by the work force in the current year.

Also, for several reasons, GAO believes that the PPSSCC method of calculating the estimated 3.7 percent reduction in entry-age normal cost is of questionable validity.

First, GAO has serious questions about the reasonableness of using a 1 percent real interest rate assumption in calculating a normal cost percentage. The Social Security Administration and most private sector pension plan managers assume a higher real interest rate when calculating entry-age normal cost, usually in the 2 percent range. Since each 1 percentage point change in the real interest rate assumption results in approximately a 25 percent change in the normal cost estimate, using a higher real interest rate assumption would substantially lower the savings estimate.

Second, the calculation assumes that military personnel who draw retired pay would continue in the service until age 62. In GAO's opinion, this is an unreasonable assumption and, by recommending a 5-year transition payment, the PPSSCC seems to acknowledge that most people would not remain in the military until age 62 when they would be eligible to draw regular retired pay.

Finally, work force demographics, such as the average age, length of service, and age at retirement, have a significant influence on the normal cost percentage. The PPSSCC methodology implicitly assumed that demographically, the civil service (which formed the basis for the calculations) and the military are identical, an assumption GAO believes is not valid. Data shows that demographically the civil service work force looks considerably different in several respects than the military work force.

V. RELEVANT GAO REPORTS

GAO/OCG-84-2	Features of Nonfederal Retirement Programs (June 26, 1984)
Testimony	<u>How the U.S. Military Retirement System Compares With Other Systems</u>, by Kenneth J. Coffey, National Security and International Affairs Division, before the Subcommittee on Military Personnel and Compensation, House Committee on Armed Services, (July 29, 1983)
GAO/FPCD-77-81	The 20-Year Military Retirement System Needs Reform (March 13, 1978)

VI. GAO CONTACT

Kenneth J. Coffey 275-5140

FRS 4: BENEFIT FORMULA (MILITARY)

I. PPSSCC ISSUE AND SAVINGS

Could the military retirement system benefit formula be revised so as to reduce costs and bring annuities more in line with private sector practices?

The PPSSCC estimated that $17.1 billion could be saved over a 3-year period, on a present value basis, following full implementation.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

As stated in FRS 1, the underlying premise of all PPSSCC recommended changes in military retirement is that the system is first an old age pension, and only secondarily a force management tool. This PPSSCC premise is in contrast to the DOD position that the primary objective of the retirement system is to support the manpower force management requirements.

Consistent with its view that the military retirement system should provide benefit levels slightly better than the best private sector plans, the PPSSCC recommended that the benefit formula be changed as follows:

--That the formula for calculating retirement benefits be changed from the current 2.5 percent of basic pay for each year of service (equivalent to 1.85 percent of basic military compensation--BMC[1]) to 1.6 percent of BMC (with a 1.25 percent social security offset for each year of military service at age 62). The current formula would apply to time served prior to implementation of the recommendation, and the new benefit formula would apply to subsequent service.

--That the base for applying the calculation formula be the individual's highest BMC earnings averaged over 5 years (high-5). Currently, terminal basic pay is the calculation base for those who entered military service prior to September 8, 1980; and for those who entered on or after that date the calculation base is the high 3-year average of basic pay.

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[1] BMC consists of basic pay, basic allowance for quarters, basic allowance for subsistence, and the imputed tax advantage on the tax-free allowances. BMC is generally thought of as the military equivalent to a civilian salary.

--That retirement benefits be vested after 10 years of service. (This recommendation was also included in FRS 1: Retirement Age.)

Some of the PPSSCC recommendations may have merit if implemented in conjunction with other changes in the total compensation system which would ensure that an adequate number and quality of people are attracted to and retained in the military. However, GAO believes these recommendations, taken by themselves, could have a serious adverse effect on the military's ability to recruit, and particularly to retain, the number and quality of people needed to carry out their mission.

GAO's analysis indicates that the proposed benefit formula is generally comparable with formulas in private sector pension plans. Similarly, the proposed 10-year vesting requirement is consistent with private sector practices and could be appropriate along with other reform proposals. Seven of nine major studies of military retirement done over the past 15 years have recommended early vesting, usually at 10 years. Many critics claim that the current system--20 year vesting--results in too many people with 10 to 20 years of service, with too few remaining beyond 20 years. Military officials contend that 10-year vesting would result in a heavy loss of experienced career personnel, and in the long term may cost more than the current system. Although GAO has previously recommended earlier vesting, the force structure and cost implications of this recommendation have not been fully assessed.

The reasonableness of the PPSSCC recommendation that the military retirement system go almost immediately to a high 5-year average salary calculation base is questionable. While GAO agrees with the PPSSCC that many private sector plans use a high 5-year average salary base for computing benefits, studies indicate that the more liberal plans, typically found in the oil and chemical industries, use a high 3-year average salary base. Since the PPSSCC stated that the military retirement plan should be somewhat better than the best private sector plans, it seems reasonable that the more liberal plans which use a high-3 salary base would serve as a better model. But, again, force manning and offsetting cost implications should be addressed before such a change is implemented.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

As the PPSSCC recognized, legislation would be required before the proposals could be implemented. No such legislation has been proposed. If the legislation were enacted to implement these specific changes without making other major

revisions to the overall compensation and personnel management systems, serious manpower problems could ensue.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC estimated that changing the credit for each year of service from 2.5 percent of basic pay (1.85 percent of BMC) to 1.6 percent of BMC with a social security offset, or 1.3 percent without a social security offset, would save $13.5 billion over 3 years, and that changing from a high 3- to a high 5-year average salary calculation base would save an additional $3.6 billion--a savings of $17.1 billion. This savings estimate was calculated for fiscal years 2001 to 2003, discounted to present value at 6 percent.

In GAO's opinion, the savings estimate appears to be overstated; however, sufficient data are not currently available to accurately estimate the cost savings. The PPSSCC did not include in its calculation;

--the added cost of 10-year vesting, or

--the additional active-duty compensation costs which would be incurred to offset retention losses that would result from reductions in retirement benefits.

Also, the calculation method used by the PPSSCC produces questionable results. For example, the PPSSCC's $13.5 billion savings was calculated on the assumption that the entry-age normal cost for the military retirement system is 35 percent of BMC. However, as previously explained, this entry-age normal cost calculation assumes a 1 percent real interest rate, a rate not typically used in calculating the cost of private sector plans. If, for example, a more typical 2 percent real interest rate were used, the 3-year savings estimate would be reduced by about 25 percent.

The savings estimate for changing from a high-3 to high-5 calculation base also used questionable assumptions. In addition to the question regarding the reasonableness of the normal cost, the PPSSCC assumed a 10 percent per year pay increase. Based on this assumption a high-5 calculation base is 8.3 percent less expensive than a high-3 calculation base. However, calculating the difference using a 5 percent pay increase assumption rather than a 10 percent assumption shows that a high-5 calculation base is only 4.6 percent less expensive than a high-3 base. Using this more reasonable assumption substantially reduces the savings estimate.

V. RELEVANT GAO REPORTS

GAO/OCG-84-2	Features of Nonfederal Retirement Programs (June 26, 1984)

Testimony	How the U.S. Military Retirement System Compares With Other Systems, by Kenneth J. Coffey, National Security and International Affairs Division, before the Subcommittee on Military Personnel and Compensation, House Committee on Armed Services, (July 29, 1983)
GAO/FPCD-77-81	The 20-Year Military Retirement System Needs Reform (March 13, 1978)

VI. **GAO CONTACT**

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FRS 5: COST-OF-LIVING ADJUSTMENTS IN FEDERAL PENSION SYSTEMS (MILITARY)

I. PPSSCC ISSUE AND SAVINGS

What savings could result if federal retirement benefits were no longer fully indexed to inflation?

The PPSSCC estimated that savings of $2.9 billion could be achieved over three years, on a present value basis, if cost-of-living (COLA) provisions of the military retirement system were consistent with prevailing private sector practices.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

As a general rule, military retired pay is fully indexed to increases in the Consumer Price Index (CPI). (A temporary exception to full indexing was applied to nondisability retirees under age 62 during 1983 to 1985, whereby they were essentially limited to one-half of the estimated increase to be granted to other annuitants.) The PPSSCC concluded that federal retiree adjustments, including those for military retirees, were more liberal than those granted to private sector retirees. It acknowledged that Social Security benefits are also fully indexed but maintained that, on average, private sector pension plan adjustments offset only about 33 percent of the increase in the CPI.

To make the military retirement system comparable with private sector pension programs, the PPSSCC recommended that (1) for retirees under age 62, the COLA increase would be limited to the lower of the CPI or the annual military pay raise, and (2) since military personnel are covered by Social Security, for retirees age 62 and over, the COLA adjustment be limited to the prevalent adjustment in the private sector, currently 33 percent of inflation.

GAO has consistently maintained that the federal retirement COLA provisions--including those of the military retirement system--are excessive compared with COLA provisions in private sector programs. Therefore, conceptually GAO agrees with the PPSSCC proposal that the military retirement system's COLA provisions be applied in a manner that is more consistent with private sector practice. However, the first part of the PPSSCC recommendation--that retirees under age 62, in essence, be fully indexed--does not appear to be consistent with private sector practice or consistent with the overall thrust of the PPSSCC proposal. Instead, in GAO's opinion, it would be more consistent if those under age 62 were indexed at something less than the full CPI--for example, 70 to 75 percent of the CPI.

GAO also conceptually agrees that the second part of the PPSSCC recommendation has merit. Since Social Security is fully indexed, limiting the COLA adjustment for those receiving Social Security benefits to an amount equivalent to adjustments received in the private sector may be reasonable. However, 33 percent indexing is low compared to private sector plan practices--a study done for the Department of Labor indicates that benefits increased by 38 percent of the CPI, on average, and that for plans covering 10,000 or more recipients, the average increase was 57 percent of the CPI.

While GAO basically agrees that the change in COLA policy should be implemented, it is important to note that partial indexing of retiree pay would reduce the expected lifestream earnings of career personnel. Studies of how people behave in response to changes in compensation show that reductions in benefits generally have an adverse effect on retention patterns, although in the short-term service members already eligible for retirement benefits or those nearing retirement eligibility may, if allowed, decide to remain in the service longer to avoid lower retirement benefits--particularly if high inflation rates are anticipated. Thus, if current retention patterns serve a legitimate military manpower requirement, then the long-term reduction in retention rates that may result from these PPSSCC recommendations would have to be offset by increases in other compensation elements.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

As the PPSSCC recognized, legislation would be required before this proposal could be implemented. While proposals such as this have been made in the past, a permanent cap on COLAs has not been enacted.

In contrast to other retirement reform proposals, implementation of this proposal is feasible without making other major revisions to the overall compensation and personnel management systems. However, since lifestream earning would be reduced by such a change in COLA policy, some offsetting increases may be needed in other compensation elements in order to counteract any long-term negative effect the change may have on retention of career personnel.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

Reducing the inflation protection in the military retirement system to 33 percent on all amounts above the Social Security level (for those age 62 and over) would cut costs substantially. However, as previously discussed (see issue FRS 1), the PPSSCC's savings estimates for its recommendations are based on economic assumptions that may

or may not be valid. Also, computed savings should be offset by any increases in active-duty compensation which may be necessary to counteract long-term retention losses brought about by this change in COLA policy.

V. RELEVANT GAO REPORTS

GAO/OCG-84-2	Features of Nonfederal Retirement Programs (June 26, 1984)
GAO/OPP-82-2	U.S. General Accounting Office: Comments on the President's February 18, 1981, Budget Proposals and Additional Cost-Saving Measures (March 3, 1981)
GAO/OPP-82-1	U.S. General Accounting Office: Staff Views on the President's Fiscal Year 1983 Budget Proposals (March 5, 1982)

VI. GAO CONTACT

Kenneth J. Coffey 275-5140

FRS 6: FEDERAL PENSION INTEGRATION (MILITARY)

I. PPSSCC ISSUE AND SAVINGS

Could cost savings be achieved if the federal government coordinates the delivery of pension benefits by integrating the civil service retirement system, the military retirement system, and Social Security?

The PPSSCC estimated that integrating the military retirement system and social security benefits could save $225 million over three years.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC's recommended Social Security integration formula is the prevailing private sector practice, and may be worthy of consideration as part of a larger package of retirement reforms. However, as with its other reform proposals, the PPSSCC did not address the force manning implications of this reduction in overall retirement benefits, nor did it consider the increased current compensation costs that may be necessary to maintain the required number and quality of personnel.

The PPSSCC said the objectives of its recommendations under this issue were to recognize the federal government as a single employer and to eliminate windfall benefits employees could receive from overlapping and duplicative benefits in the civil service, military, and Social Security retirement programs.

To accomplish these objectives, the PPSSCC recommended that the military retirement system be fully and explicitly integrated with Social Security by offsetting (i.e., reducing) military retirement benefits at the prevailing private sector rate. According to the PPSSCC, the usual private sector practice is to reduce pension benefits (the offset begins at age 62) by 1.25 percent of the primary Social Security benefit for each year of service. (This means that at age 62, a retired military member with 20 years of service would have his or her retired pay reduced by 25 percent (20 times 1.25 percent) of the individual's primary Social Security benefit. The average primary Social Security benefit in 1983 was $5,040. Under this proposal 25 percent of this amount--for a 20-year retiree--would be subtracted from the individuals retired pay.)

Military personnel were brought under full Social Security coverage in 1957 by legislation which had as its main purpose securing improved survivor benefits for service members; with only limited consideration given at that time to the implications of this action on career

personnel or the military retirement system. Thus, the two systems were not explicitly or implicitly integrated, and Social Security old-age benefits were, and remain, fully additive to the existing military retirement system.

The question of whether the military retirement system should be fully and explicitly integrated with Social Security, as are 80 to 90 percent of private sector plans, has been addressed by each of the nine major studies which, over the past 15 years, have addressed military retirement issues. Most of these, except the Defense Manpower Commission and the recent 5th Quadrennial Review of Military Compensation, recommended explicit integration of Social Security. Two proposals--one made by the President's Commission on Military Compensation in 1978 and another by the Carter Administration's 1979 proposed Uniformed Services Retirement Benefits Act--contained an explicit percentage offset provision nearly identical to the PPSSCC proposal.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that legislation would be required to implement this proposal to offset Social Security benefits. No such legislation has been proposed. However, if legislation were enacted to implement this specific proposal without making other adjustments to the compensation and personnel management systems, personnel retention patterns could change and offsetting increases in other compensation elements may be needed.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC estimated that full Social Security integration would save $225 million over 3 years, phased in at a rate of 25 percent of the full offset over a 4-year period. The PPSSCC estimate assumed that military retirement benefits for each retiree over age 65 would be cut by an average of $1,260 a year. In making this estimate, the PPSSCC assumed that all military retirees over age 65 were receiving Social Security benefits equal to the average benefit received by all Social Security recipients over age 65. It also assumed that each of the retirees had only 20 years of military service. Data are not available to validate these assumptions; however, they generally appear reasonable, except the assumption that military personnel retire with an average of 20 years of service. Current data indicates that officers have an average of about 24 years of service and enlisted personnel have about 22.5 years of service at retirement. Using a higher year-of-service average in the calculation would slightly increase the savings estimate.

V. RELEVANT GAO REPORTS

GAO/OCG-84-2	Features of Nonfederal Retirement Programs (June 26, 1984)
Testimony	How the U.S. Military Retirement System Compares With Other Systems, by Kenneth J. Coffey, National Security and International Affairs Division, before the Subcommittee on Military Personnel and Compensation, House Committee on Armed Services (July 29, 1983)
GAO/FPCD-78-49	Need for Overall Policy and Coordinated Management of Federal Retirement Systems, Volume I. (December 29, 1978)
GAO/FPCD-77-81	The 20-Year Military Retirement System Needs Reform (March 13, 1978)

VI. GAO CONTACT

Kenneth J. Coffey 275-5140

I. PPSSCC ISSUE AND SAVINGS

Could improvements be made in the accounting practices of the government concerning the military retirement system?

Savings from the recommendations are generally not quantifiable because of the broad and encompassing nature of the suggested improvement.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC concluded that the cost and liabilities of the military retirement system are much greater than recognized by current costing and funding procedures. It called for full recognition of accruing retirement costs--using "dynamic"[1] estimating assumptions--in service budgets and for amortization of the retirement system's unfunded liability.

GAO has long supported recognizing in current budgets the full cost of future federal retirement benefits as they accrue, with future costs being estimated using dynamic rather than static estimating assumptions. However, GAO disagrees that recognition in the budget of the dynamic unfunded liability would result in all the advantages the PPSSCC suggests. The dynamic approach merely gives a better picture of the system's ultimate liability.

Beginning in fiscal year 1985, the military personnel budgets will include the estimated cost of retirement benefits that will be paid in the future to those individuals expected to remain in and retire from the service. These costs will be calculated using "dynamic" estimating assumptions. (Public Law 98-94; 97 Stat. 614, 644-648, Sept. 24, 1983.). In GAO's opinion, the major benefits that will be realized from this new legislation are that (1) the future cost of promised retirement benefits will be explicitly recognized in current military service budgets, and (2) as manpower management decisions are considered and made, such as the decision on whether to have a larger or smaller proportion of the force as first-term personnel or as career

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[1]When estimating the future cost of retirement benefits, assumptions must be made, including assumptions regarding wage increases, cost of living increases, mortality rates, interest rates, inflation rates, et cetera. Assumptions concerning wage and cost of living increases, in particular, can be "static" or "dynamic." Static assumptions assume no increases in wages or prices and result in a low estimate of future costs. Dynamic assumptions attempt to estimate the actual increases expected in wages and prices, and consequently result in a more realistic estimate of actual future costs.

personnel, the future retirement cost of these decisions will be visible and recognized even though actual outlays may not occur for many years. This is in contrast to the earlier "pay-as-you-go" system where future retirement liabilities were not charged to current budgets and retirement costs were not always considered when manpower management and force profile decisions were made.

It must be recognized in evaluating this issue that an important difference exists between federal and private sector pension funding practices. Contributions to private sector pension funds are usually made in cash or marketable securities by employers and/or employees. The cash contributions are invested in income-producing securities which are then sold in the securities markets when needed to make benefit payments. The essence of the private sector pension fund is that its receipts and balance represent cash or assets that can be converted to cash. On the other hand, the newly established military retirement fund is required by law to be invested in federal securities. There is no cash involved in this kind of intragovernmental transaction, only bookkeeping entries. When funds are needed to make benefit payments, the Treasury obtains the cash through its normal channels of tax receipts or borrowing from the public. Thus, the primary beneficial effect of fully funding military retirement costs, as they accrue, is to enhance cost recognition and budgetary discipline, as well as improve fiscal and legislative decision making.

GAO agrees with the PPSSCC that amortization of the unfunded liability is consistent with the legal requirement that private sector pension plans amortize their unfunded liabilities. The 1984 Defense Authorization Act (Public Law 98-94; 97 Stat. 614, 644-648, Sept. 23, 1983) requires the military retirement system's unfunded liability to be amortized beginning in fiscal year 1985 over a period of years to be determined by the newly appointed DOD Board of Actuaries.

The above discussion relates to the policy of fully funding estimated future pension costs by including them in the budget currently, even though outlays will not be made for some time. It does not relate to accounting for the government's liability for purposes of presenting current financial information which is subject to Title 2 of the General Accounting Office Policy and Procedures Manual for Guidance of Federal Agencies. This manual requires that the actuarial present value of accumulated plan benefits is to be calculated and recorded using dynamic assumptions concerning benefit increases but not future pay increases. This computation is consistent with current pension accounting guidance provided by the Financial Accounting Standards Board.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

Although not enacted in response to the PPSSCC recommendation, legislation was enacted in September 1983 (Public Law 98-94; 97 Stat. 614, 644-648) which basically implemented the PPSSCC recommendations. The new legislation calls for recognizing the full cost of retirement benefits in current budgets as benefits are earned and for liquidating the unfunded liability. While the act does not specifically state that dynamic estimating assumptions are to be used, the Report of the House Committee on Armed Services which accompanied the act, recommended that dynamic assumptions be used to calculate the aggregate entry-age normal cost percentage (House Rept. 98-107).

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO agrees with the PPSSCC that full funding of estimated future retirement costs would not result in any direct savings to the retirement system.

V. RELEVANT GAO REPORTS

GAO/FPCD-77-48	Federal Retirement Systems: Unrecognized Costs, Inadequate Funding, Inconsistent Benefits (August 3, 1977)
GAO/FPCD-78-49	Need for Overall Policy and Coordinated Management of Federal Retirement Systems (December 29, 1978)

VI. GAO CONTACT

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CONG 3-1: REMOVE RESTRICTIONS ON STOCKPILE SILVER SALES

I. PPSSCC ISSUE AND SAVINGS

The PPSSCC recommended that the General Services Administration (GSA) seek legislation to sell 105.1 million troy ounces of the 139.5 million troy ounces of silver in the National Defense Stockpile. The PPSSCC estimated that $1.04 billion would be realized by selling the entire 105.1 million troy ounces in 1 year at $9.95 per troy ounce.

The PPSSCC characterized this revenue as a budgetary savings. The PPSSCC, however, also noted that the revenue could be used to purchase other needed stockpile materials.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATION

While $1.04 billion could be realized by selling the 105.1 million troy ounces at $9.95 per troy ounce, the stockpile silver must first be found to be excess to stockpile requirements. The Strategic and Critical Materials Stock Piling Act, as amended, requires that all funds from the sale be placed in a separate fund in the U.S. Treasury--the National Defense Stockpile Transaction Fund--and be used only to purchase needed stockpile materials. Accordingly, sale proceeds cannot now be used directly to fund other programs, although increases in the Fund balance allow the Treasury to reduce the amount it must borrow from the public to finance other programs.

The fiscal year 1982 Defense Appropriation Act (Public Law 97-114) suspended the disposal of stockpile silver pending (1) a presidential redetermination that the silver to be disposed of is excess to stockpile requirements, and (2) congressional approval of any proposed disposal method. In making the redetermination, the President is required to consider certain factors, including the findings and recommendations in GAO's January 1982 report, National Defense-Related Silver Needs Should Be Reevaluated And Alternative Disposal Methods Explored.

The Comptroller General, in legislative comments dated August 8, 1984, reiterated GAO's view that

> "In the absence of conclusive information that the silver to be disposed of is excess, we believe that the Congress should call for and consider the redetermination report before taking final action to dispose of any stockpile silver."

The fiscal year 1985 Department of Defense Appropriations Act again prohibited any disposal of National Defense Stockpile silver until the redetermination report by the President has been submitted to the Committees on Armed Services of the Senate and the House of Representatives. As of January 1985 the President's report has not been submitted to the Congress.

GAO believes that the existing legislative requirements constitute a well-defined, logical course of action to ensure that the silver is in excess of stockpile requirements before it is disposed of and, if found to be in excess, is disposed of in such a manner as to minimize or eliminate any short-term market price disruption. GAO believes that the potentially adverse effect on national security and domestic silver producers should be considered in any decision to dispose of the stockpile silver.

Even if the silver is found to be excess to stockpile requirements, the Continuing Appropriations Act for Fiscal Year 1983 (Public Law 97-377) limits annual stockpile silver sales to no more than 10 percent of the silver produced from existing domestic mines in the preceding 12-month period. As domestic production has generally been about 40 million troy ounces, this provision limits annual sales to about 4 million troy ounces of stockpile silver. This limitation implements the provision of the Strategic and Critical Materials Stock Piling Act, as amended, which states that in disposing of stockpile materials, efforts be made to avoid undue market disruption.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC proposal calls for legislative action to eliminate restrictions on the sale of stockpiled silver. GAO agrees that legislation would be needed to implement the PPSSCC proposal.

First, the various legislative restrictions specific to silver disposal would need to be rescinded. Also, general legislative constraints would need to be waived; for example, the requirement that disposals not have adverse market impact would certainly be violated by an attempt to dispose of the entire 105.1 million troy ounces of silver in one year, as PPSSCC suggests.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC estimates that $1.04 billion in savings would be realized selling stockpile silver, and that

these procedes could be used to offset the cost of other stockpile acquisitions. The $1.04 billion estimate was based on a market value for silver of $9.95 per troy ounce. However, any estimate of the value of such a savings is dependent on the market price of silver. That price is constantly fluctuating. Based on the current market value of $6.00 per troy ounce, this estimate would be reduced to $630.6 million.

Further, both CBO and GAO previously estimated that selling the stockpile silver over an extended period of time would maximize revenues. We found that about 4 million troy ounces per year could be sold without significantly lowering the market price, bringing in about $40 million annually (about $24 million as of January 1985).

Finally, the PPSSCC stated that silver disposal revenue could be used to buy other stockpile materials. However, if this were done the revenue generated from the silver sale would be offset by expenditures made to acquire other needed stockpile materials, and there would be no savings.

V. RELEVANT GAO REPORTS

B-205617	Comments on Provisions in H.R. 5167 and S. 2723 to Dispose of National Defense Stockpile Silver (Aug. 8, 1984)
GAO/RCED-83-7	Unresolved Issues Concerning the Disposal of Stockpile Silver (Feb. 18, 1983)
GAO/EMD-82-24	National Defense-Related Silver Needs Should Be Reevaluated And Alternative Disposal Methods Explored (Jan. 11, 1982)

VI. GAO CONTACT

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CHAPTER 4

HUMAN SERVICES AND WAGE PROTECTION PROGRAMS

The federal government spends about $400 billion a year on human services programs which serve millions of people. These programs provide health care, education, retirement and disability income, and cash and non-cash benefits for the needy. The government also regulates the wages of workers on federally-funded contracts estimated to exceed $120 billion a year.

This chapter discusses 82 issues, primarily dealing with human services and wage regulation, where PPSSCC estimated savings of about $168 billion. The issues involving the greatest potential savings involve policy matters that are relatively controversial such as changing (1) the approaches used to contain the costs of medical care, (2) eligibility requirements and the amounts of benefits from programs for the needy, and (3) the government's role in setting wages for persons working on government-funded contracts.

Of the 82 issues addressed, GAO found overall merit in 57, questioned the merits of 17, and had no position on eight. Legislative action would be required to fully implement PPSSCC's recommendations for 54 of the 82 issues. While GAO found the majority of the issues to have overall merit, it questioned the merits of issues with some of the largest PPSSCC savings estimates.

MEDIC 1: FEDERAL HEALTH CARE COSTS

I. PPSSCC ISSUE AND SAVINGS

"PPSS recommends basic long-term changes in the U.S. health care financing system intended to accomplish the following two primary objectives:

1. Create fiscal controls that will enable the Federal Government to restrict Federal expenditures for health care to acceptable rates of increase in the future.

2. Make it possible for the Federal Government to continue to fulfill the goals of the major Federal entitlement programs, such as Medicare and Medicaid, to provide adequate health care coverage for elderly, poor and disabled people.

"PPSS is recommending the use of competitive markets to accomplish this difficult task."

Three year savings of $28,900 million could be achieved.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

Federal health expenditures have been increasing faster than the rate of inflation and the rate of growth in GNP and these expenditures are consuming an increasing portion of the federal budget. To reduce the growth in federal health expenditures and to improve the overall efficiency and quality of the health care delivery system, PPSSCC recommended (1) establishing a cap on the increase in total federal health expenditures equal to the rate of growth in GNP, (2) setting per capita amounts for Medicare and Medicaid expenditures, (3) allocating Medicare and Medicaid funds to geographic areas based on the number of beneficiaries and the per capita amounts, (4) obtaining competitive bids to provide services to the beneficiaries within the geographic allocations of funds, and (5) providing beneficiaries with vouchers and allowing them to select from the bidding plans and pay or pocket the difference between the voucher amount and the plan's cost.

Although rising federal health expenditures are a serious problem, GAO does not believe it is appropriate to implement the system described by PPSSCC at this time because of the many uncertainties about the outcome of such a system and because of the numerous assumptions which have to be made for the system to work as envisioned by the PPSSCC.

The PPSSCC recognizes that many factors have resulted in the increased cost of health care. It lists as factors (1) general inflation, (2) health care price inflation above the rate of general inflation, (3) growth of the population served, (4) increased use of services on a per capita basis, (5) changes in medical technology, and (6) increased medical intensity. PPSSCC recommends that the increase in total federal health expenditures and the per capita amount for Medicare and Medicaid be limited to the increase in GNP. This action would basically only account for the first and third of the six listed factors affecting health care costs. Given this fact, the provision of medical care would have to change dramatically if there is not to be a lowering of the level of health care provided to beneficiaries or a shift of costs to them.

The increasing use of services, increasing application of costly technology, and/or increasing intensity of services would (1) virtually have to stop, (2) be paid for by the beneficiary, or (3) be offset by efficiencies in other areas. PPSSCC does not present convincing evidence that the third of these alternatives (efficiencies) would occur, but apparently assumes it would through competitive bidding. This in turn assumes that the successful bidders could obtain lower prices than Medicare and Medicaid now pay and/or better control the use of services than Medicare and Medicaid. Because bidders would have to cover at least the same range of services as Medicare and Medicaid do and would probably have less leverage with providers because fewer beneficiaries would be covered under each plan, it is difficult for GAO to see how bidders could accomplish this without sacrificing quality of services or reducing access to medical care.

The PPSSCC recommendation also envisions geographic allocations of Medicare and Medicaid funds based on the number of beneficiaries in the area and the per capita amounts. PPSSCC states that some adjustments may be necessary to account for regional differences such as cost of living. However, regarding Medicaid, many other factors, such as differences in federal Medicaid sharing rates and the range of services provided under the various state Medicaid plans, would have to be considered if major shifts in federal funds from some states and regions to others are not to occur.

GAO also notes that to implement this recommendation many programs beside Medicare and Medicaid presumably would be affected. For example, the DOD and VA direct delivery systems and the health research programs of NIH

would have to have their growth limited by the same percentage as Medicare and Medicaid. If the Congress were to increase military health benefits or increase research funding for cancer, it would have to decrease the limit in another area.

This analysis of the PPSSCC recommendation does not address all of the uncertainties and assumptions associated with it. Those discussed, however, raise enough questions to cause GAO to believe implementation is not appropriate at this time.

The federal government faces a dilemma regarding health care costs. Although, PPSSCC has raised a valid concern of national importance about the increasing proportion of federal expenditures going to the health programs, GAO does not believe there is sufficient evidence to support that PPSSCC's recommended solution will work as envisioned by it. As the PPSSCC has correctly pointed out, government expenditures for health care are tied to a dynamic growth industry which has been consuming a larger and larger portion of GNP. If, as expected, the industry continues to grow, the government will have to commit more resources to health care programs unless changes are made in them. However, the solution proposed by the PPSSCC involves too many uncertainties and requires too many assumptions for GAO to endorse at this time. On the other hand, GAO does note that the federal and state governments are currently experimenting with many of the elements included in the overall PPSSCC recommendation. Over time, these experiments may help answer the questions raised by PPSSCC's competitive health care strategy.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

Numerous actions would need to be taken to implement the recommendation. The Congress would have to amend many laws. Regional allocations for Medicare and Medicaid (and presumably a distribution formula for VA, the Indian Health Service, etc.) would have to be calculated. Bids would have to be solicited and evaluated for Medicare and Medicaid and contracts awarded. An appropriate administrative structure would have to be established. All of this would take quite some time to accomplish.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC savings estimate is the difference between the estimated 13 percent annual rate of increase in federal health expenditures for the fiscal years 1984-86 period and a 9 percent annual increase. If expenditures were capped at the 9 percent level, approximately this amount would be saved. However, because, in GAO's opinion, it would take a number of years to implement the fundamental changes envisioned by this recommendation, the savings could not be realized in the period used by PPSSCC.

V. RELEVANT GAO REPORTS

GAO/HRD-83-21	Financial and Other Problems Facing the Federal Employees Health Insurance Program (Feb. 28, 1983)
GAO/HRD-82-92	A Primer on Competitive Strategies for Containing Health Care Costs (Sept. 24, 1982)

VI. GAO CONTACT

Michael Zimmerman 275-6195

HEALTH 3: HOSPITAL REIMBURSEMENT

I. PPSSCC ISSUE AND SAVINGS

"What changes are necessary in the Medicare hospital reimbursement methodology to restrain the increase in hospital costs?

"Medicare program savings of $5.694 billion over 3 years could result by changing to a prospective reimbursement system. Significant additional savings under Medicaid could be possible under such a system."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

Medicare hospital costs have increased dramatically over the years and part of this increase was due to the lack of incentives to hold down costs under the program's cost reimbursement system. Under cost reimbursement, hospitals are paid retrospectively their actual reasonable costs of providing covered services. Prospective payment systems provide incentives to contain cost growth because the amount a hospital receives is predetermined and, if its costs exceed the payment, the hospital suffers a loss. The PPSSCC recommendation is moot because the Congress adopted a Medicare prospective payment system for hospitals in April 1983.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

As part of the Social Security Amendments of 1983 (Public Law 98-21), Congress authorized Medicare to pay hospitals on a prospective basis. During fiscal year 1984 all hospitals not exempted under the law were phased into the prospective payment system.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The savings estimated by PPSSCC are far in excess of those that will be realized under the prospective payment system adopted by the Congress. This results because the law requires for fiscal years 1984 and 1985 that the prospective payment system be budget neutral; that is, the prospective system must result in the same total payments as the previous reimbursement system would have during these 2 years. As far as the PPSSCC savings estimate itself is concerned, its accuracy is questionable because it is based on a straight extrapolation to all states of experience in only 8 states. This assumes that the other states would have the same experience.

V. RELEVANT GAO REPORTS

GAO/HRD-80-72 Rising Hospital Costs Can be Restrained by Regulating Payments and Improving Management (Sept. 19, 1980)

VI. GAO CONTACT

Michael Zimmerman 275-6195

HEALTH 4: PHYSICIAN REIMBURSEMENT

I. PPSSCC ISSUE AND SAVINGS

"Should the current fee-for-service physician reimbursement system under Medicare be changed?"

Savings of $1,010 million in 1984 Medicare costs are possible if the rate of increase in physician fees for reimbursement can be limited to 10 percent. Three-year savings total $3,343 million.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

Medicare's costs for payments to physicians have been increasing much faster than the general rate of inflation. To decrease the rate of Medicare cost increase, PPSSCC listed three alternatives. One alternative--legislation to authorize the use of alternative delivery systems, primarily Health Maintenance Organizations--is already permitted by law and in operation, and has the potential to hold down Medicare cost increases. The other two alternatives--use of fee schedules and competitive bidding for physician services--would be relatively complicated to implement, and could have impacts on program beneficiaries such as restricting freedom-of-choice and access to physician services. PPSSCC also recommended a program to provide consumer information to beneficiaries. A program to provide consumers with information seems to be worthwhile and could be implemented, assuming necessary funds are available.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The Social Security Amendments of 1972 (Public Law 92-603) provided for an alternative delivery system by authorizing Health Maintenance Organizations to contract with Medicare. This authority has been expanded through amendments to the law. Implementing either of the remaining alternatives--the use of fee schedules or competitive bidding for physician services--would require major legislative changes and could result in unintended impacts on program beneficiaries. Both of these remaining alternatives would involve substantial administrative effort to implement and maintain.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC's estimate assumes a 5 percent decrease in the expected rate of increase in Medicare payments to physicians. No data is presented to substantiate that this magnitude of savings is feasible.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

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LISAB 8: MEDICAID HOSPITAL AND LONG-TERM CARE COSTS

I. PPSSCC ISSUE AND SAVINGS

"Could Medicaid in-patient hospital costs and long-term care costs be reduced by replacing retrospective payment systems with prospective payment systems and by utilizing community-based care where institutional care is not necessary?"

PPSSCC states that prospective payment systems would create estimated savings of $490.7 million for 3 years; estimated savings for utilizing community-based services would be $540.6 million over 3 years. Total federal savings for this issue are estimated at $1,031.3 million over 3 years.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO believes that controlling Medicaid hospital and long-term care costs is crucial because they represent about 75 percent of program costs. GAO agrees with the concept of using prospective payment systems for reimbursing hospital costs. In GAO's opinion, however, mandating the replacement of retrospective payment systems with prospective systems in Medicaid requires further evaluation. Legislative action has already been taken to allow states some flexibility in designing ways to contain Medicaid hospital and long-term care costs. Provisions of the Omnibus Budget Reconciliation Act of 1981 (OBRA), authorized a change in reimbursement for hospital services from an institution's reasonable costs to costs deemed reasonable and adequate to meet the costs which must be incurred by efficiently and economically operated facilities. It was hoped that this provision would help states to curb dramatic increases in Medicaid expenditures for hospital care. Since OBRA of 1981, many states have abandoned the Medicare reasonable cost-based reimbursement principles and adopted more cost-control oriented systems. However, this legislation did not require states to develop prospective payment systems. The basic principle of prospective payment systems is that a payment reimbursement rate or maximum amount is set in advance that is, before the services are provided. In theory, a prospective system provides incentives to providers to be efficient because they know in advance how much they will be paid and that they will suffer a loss if costs are higher. In contrast, under a retrospective system at the end of a period, usually a year, the actual allowable costs of providing care are determined and payments are made equal to that amount. Generally, there is little incentive for providers to be efficient because final payments reflect the actual costs incurred.

OBRA also contained a provision which allowed states to provide home and community-based care services through the Medicaid program under waiver, as a less costly alternative to institutionalization. Preliminary indications are that this approach may not be cost-effective if one considers those costs that are assumed by other public federal programs when patients are maintained in the community, such as cost to Supplemental Security Income (SSI), Social Services, and Administration on Aging programs.

GAO believes that additional support is needed to justify implementing the changes recommended by the PPSSCC. In GAO's opinion, it is premature to require the changes that the PPSSCC recommendations suggest because existing prospective payment and home and community-based programs have not been thoroughly evaluated to determine whether they contain health care costs and assure access to quality care.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC's assessment of implementation authority for the recommendations on Medicaid hospital and long-term care costs. Legislation would be necessary to require that all states adopt prospective payment systems for Medicaid inpatient hospital reimbursement and to require that competitive forces be created in the private and public health care sectors. Only administrative action would be necessary to encourage implementation for all-payer hospital rate setting programs (i.e. all payers pay the same rate for health care services) and to require prescreening and case management as a condition of participation in community-based services. However, the feasibility of implementing these recommendations is questionable. For example, there are problems with implementing the PPSSCC recommendations for encouraging all-payer hospital rate setting programs. Establishing all-payer systems for hospitals is administratively difficult and often requires data not currently available to states. In the past, GAO found that savings could be realized from competitive procurement for selected services. We recommended competitive procurement under Medicaid for services such as laboratory and eyeglasses, and this recommendation was included in OBRA in 1981.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC used many assumptions and did not consider certain costs in computing its savings estimate. For example, it assumed that all other states would realize the same savings from prospective payment as the PPSSCC estimated average savings for the 10 states it reviewed. Also, PPSSCC assumed that all states would have the same experience with alternatives to nursing home programs as five states had in the past and that all individuals who could

be served ir the community would be served at the costs incurred under more limiting programs in the five states. GAO questions the national application of the data PPSSCC used but does not have sufficient information to determine the reasonableness of the assumptions. In estimating the savings from utilizing community-based services, PPSSCC only considered Medicaid costs and did not include costs to several other public programs. Because of these factors and others, GAO questions the cost-effectiveness of community-based services care and whether the data used by PPSSCC can be generalized nationwide.

V. RELEVANT GAO REPORTS

GAO/HRD-82-92	A Primer on Competitive Strategies for Containing Health Care Costs (Sept. 24, 1982)
GAO/HRD-80-72	Rising Hospital Costs Can be Restrained by Regulating Payments and Improving Management(Sept. 19, 1980)
GAO/PAD-80-12	Entering a Nursing Home--Costly Implications for Medicaid and the Elderly (Nov. 26, 1979)
GAO/HRD-78-60	Savings Available by Contracting for Medicaid Supplies and Laboratory services (July 6, 1978)

VI. GAO CONTACT

Michael Zimmerman 275-6195

HEALTH 2: MEDICARE AUDITING AND MEDICAL REVIEW

I. PPSSCC ISSUE AND SAVINGS

"Should Medicare Auditing and Medical Review procedures and reporting be improved and should funding for these areas be increased?"

An estimated $446.8 million could be saved over a 3-year period.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

Medicare cost audits and medical reviews are cost beneficial; that is, the cost of the audits and reviews are more than offset by the unallowable expenditures identified. Therefore, GAO supports the PPSSCC's proposals aimed at improving audits and medical reviews.

Currently, Medicare cost audits and medical reviews of nonhospital services are performed by the same contractors that process claims. PPSSCC recommended experimenting with audit and medical review contracts separate from the intermediary and carrier contracts and determining the best allocation of audit and medical review dollars. Such experiments or allocation methods hold promise to provide information on alternative administrative mechanisms which could help control Medicare cost increases.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The Congress would have to appropriate the additional audit and medical review funds PPSSCC recommends as well as authorize the experiments with contractors other than carriers and intermediaries for these functions. HCFA could institute PPSSCC's recommended improvements in audit and medical review reporting and allocation of audit and medical review funds.

In GAO's February 1983 report on medical review and its June 15, 1982 testimony on possible ways to reduce Medicare costs, GAO recommended that audits and medical reviews be improved and additional funds be appropriated to carry out these functions. The Congress did authorize additional funding for audits and medical reviews for fiscal years 1983-85 and PPSSCC recommends that even more funds be appropriated for these functions.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

PPSSCC's savings ratio of $10 in unallowable expenditures saved to every $1 in audit and review costs is probably high. Based on GAO's audit work a ratio between 5 to 1 and 7 to 1 would be more realistic. Therefore, PPSSCC's savings estimate may be overstated.

V. RELEVANT GAO REPORTS

GAO/HRD-83-16	Improving Medicare and Medicaid Systems to Control Payments for Unnecessary Physicians' Services (Feb. 8, 1983)
Testimony	1983 Budget Proposals Relating to the Medicare Program, by Gregory J. Ahart, Human Resources Division, before the House Committee on Ways and Means, June 15, 1982.

VI. GAO CONTACT

Michael Zimmerman 275-6195

HEALTH 1: MEDICARE CONTRACTING

I. PPSSCC ISSUE AND SAVINGS

"Should the Health Care Financing Administration (HCFA) institute a system-wide, competitive bid, fixed-price process for contracting the administration of Medicare claims?"

PPSSCC estimated that $60 million could be saved annually upon full implementation in addition to an estimated savings of $15 million per year in existing fixed-price contracts.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

PPSSCC recommended that HCFA aggressively pursue legislative authorization to use competitive fixed-price contracting for all Medicare claims processing contracts. Over the last 5 years GAO has looked twice at the advantages and disadvantages of competitive contracting for Medicare. In both cases GAO found insufficient basis to make a wholesale change to fixed-price contracting for Medicare claims processing services. GAO identified alternative means of achieving savings and improving contractor operations available under Medicare law. Also, the Deficit Reduction Act of 1984 authorized a limited expansion in the number of fixed-price contracts. In granting that authority, the Congress has required GAO to evaluate HCFA's ability to implement a fixed-price-contracting system for Medicare claims processing and submit a report to the Congress by July 18, 1985.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

Congressional action will be necessary to implement PPSSCC's recommendation. In June 1979 GAO recognized that HHS might need a long time to evaluate the effects of competitive fixed-price contracting. Therefore, GAO suggested that Congress consider providing HHS contingency authority to expedite the use of competitive fixed-price contracting after fully evaluating the experiments and demonstrating to the Congress' satisfaction that no measurable adverse effects will occur. The Congress implemented GAO's recommendation in the Deficit Reduction Act of 1984 (Public Law 98-369).

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

PPSSCC's savings estimate may represent a realistic reduction in Medicare administrative costs. However,

administrative costs represent only about 3 percent of total Medicare costs with the remainder being comprised of benefit payments. Good controls over benefit payments cost money and GAO believes that such controls can be lessened or compromised as a result of administrative cost cutting initiatives. Poorer controls over benefit payments can easily wipe out any administrative savings and increase total program costs.

V. RELEVANT GAO REPORTS

GAO/HRD-82-17	Experiments Have Not Demonstrated Success of Competitive Fixed-Price Contracting in Medicare (Dec. 1, 1981)
GAO/HRD-79-76	More Can Be Done to Achieve Greater Efficiency in Contracting for Medicare Claims Processing (June 29, 1979)

VI. GAO CONTACT

Michael Zimmerman 275-6195

LISAB 9: MEDICAID QUALITY CONTROL

I. PPSSCC ISSUE AND SAVINGS

"What steps can be taken to make the Medicaid Quality Control Program more effective as a management tool?"

PPSSCC recommendations aim at realizing the 3 percent error rate established by Congress. Savings are not included because they have already been projected in the budget.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO agrees with the view that steps should be taken to make the Medicaid Quality Control (MQC) program more effective as a management tool. The MQC program was designed as a coordinated effort by the state and federal governments to improve the administration of the Medicaid program. Its primary objective is to measure, identify, and eliminate or reduce dollar losses. To encourage states to improve their Medicaid administration, the Congress and the Health Care Financing Administration have tied an error rate developed by quality control to fiscal sanctions. In 1982, Congress established a 3 percent error rate target which states must meet or be subject to penalty. GAO believes the main objective of the program should be to develop and implement meaningful corrective action programs. Generally, the PPSSCC recommendations are directed toward this end. They are designed to improve the effectiveness of the MQC program as a management tool through stronger corrective action/incentive programs and improved monitoring capability. In the past GAO has made several recommendations for improving the quality control program. Although GAO's recommendations are not exactly the same, we believe that the PPSSCC recommendations have merit and are basically consistent with GAO's overall position.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC assessment of implementation authority for the recommendations in this issue. The results of the first recommendation to reevaluate the current disallowance system and consider replacing it, would require legislative action if it were decided that the system should be replaced. The other three recommendations which involve improving the usefulness of the system's data output and the ability to monitor the MQC program, could be accomplished administratively.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

PPSSCC believes that costs savings can be realized if states meet the 3 percent error rate established by Congress, however, the report did not quantify a savings amount. States not meeting the rate target are subject to penalty in the form of disallowed federal matching funds.

V. RELEVANT GAO REPORTS

GAO/HRD-82-6 Medicaid Quality Control System Is Not Realizing Its Full Potential (Oct. 23, 1981)

VI. GAO CONTACT

Michael Zimmerman 275-6195

BANK 16: REMOVE MEDICARE ADMINISTRATION FROM THE RAILROAD RETIREMENT BOARD

I. PPSSCC ISSUE AND SAVINGS

"Can the present industry-wide Part B Medicare system be turned over to the Health Care Financing Administration (HCFA) and the railroad community be included in the regular Medicare 'area carrier' system?

"Three-year savings are projected at $23.9 million."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The Railroad Retirement Board maintains a separate nationwide contractor (called a carrier) to process claims for physicians' services for the more than 800,000 eligible Board beneficiaries under part B of the Medicare program. Most of the other 28 million part B beneficiaries use carriers under contract with HCFA which serve specific geographical areas such as a state. PPSSCC recommended that legislation be requested to have railroad Medicare beneficiaries' claims processed by HCFA's area carriers.

GAO pointed out in a June 1979 report that the HCFA area carriers could process the relatively small volume of Railroad Retirement Board related claims at a lower cost than incurred by the Board's nationwide carrier (The Travelers Insurance Company). In addition, the use of the HCFA area carriers could result in more uniformity in payments because Travelers pays different amounts than the area carriers for the same services by the same physician about 80 percent of the time.

GAO's June 1979 report and PPSSCC's report both include recommendations to the Congress that Railroad Retirement Board beneficiaries be placed under the HCFA area carrier system that is responsible for processing and paying most other beneficiary claims. PPSSCC also suggested an alternative that would allow the railroad community to maintain its separate system if it was willing to pay the additional administrative costs associated with this rather than passing them on to the taxpayers. GAO believes this alternative suggestion also has merit.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

Implementation of this recommendation would require repeal of the provision in the Medicare law permitting the Railroad Retirement Board to contract separately for a Medicare carrier for its beneficiaries. The President's

budgets for fiscal years 1984 and 1985 included a legislative proposal for the HCFA area carriers to process the Railroad Retirement Board beneficiary claims instead of a separate contractor. In addition, in response to a request from the Chairman, Subcommittee on Commerce, Transportation and Tourism, House Committee on Energy and Commerce, GAO issued a September 1984 report updating the findings and conclusions in the June 1979 report. The request was made with the view toward considering legislation to implement the PPSSCC and GAO recommendation; however, no legislation has been enacted. Although GAO believes this recommendation is still valid and represents the preferable course of action, it has proven to be controversial and the Congress has chosen not to adopt it.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO's current estimate of savings is about $6 million a year as compared with PPSSCC's estimate of about $8 million. GAO's estimate is lower because it had more current (fiscal year 1983) cost data. PPSSCC used cost data for fiscal year 1982. In addition, PPSSCC included savings of about $1 million for eliminating the Railroad Retirement Board's personnel costs related to administering the contract with Travelers and for reductions in other administrative functions associated with the Board's involvement with Medicare. GAO did not attempt to estimate a savings for these factors.

V. RELEVANT GAO REPORTS

GAO/HRD-84-54 Use of a Separate Carrier to Process Medicare Claims for Railroad Retirement Beneficiaries (Sept. 26, 1984)

GAO/HRD-79-76 More Can Be Done to Achieve Greater Efficiency for Medicare Claims Processing (June 29, 1979)

VI. GAO CONTACT

Michael Zimmerman 275-6195

HEALTH 8: ORGANIZATION AND STAFFING

I. PPSSCC ISSUE AND SAVINGS

"Is the Health Care Financing Administration (HCFA) appropriately organized, staffed, and located to administer the Medicare, Medicaid programs?"

The proposed reduction of 322 positions and the relocation and consolidation of HCFA to a central site could result in 3-year savings of $32.2 million.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

PPSSCC made several recommendations directed at improving HCFA's organization and staffing. Over 90 percent of PPSSCC's estimated savings come from a reduction in HCFA's staffing level but PPSSCC acknowledged that it could not justify a specific staffing level, although it did recommend a reduction of 322 staff years. Such a reduction could have far reaching effects on HCFA's program management capabilities and until appropriate staffing levels are established, GAO questions the wisdom of implementing this recommendation.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The staff reductions and centralization of HCFA recommended by PPSSCC could be implemented through executive action. In the absence of defensible staffing level requirements, the feasibility of making the recommended staffing level cuts is questionable.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

Most of the PPSSCC's estimated savings is attributed to a reduction in staffing with the balance resulting from improved productivity due to centralization of staff. Because PPSSCC did not conduct an adequate staffing level needs assessment, GAO could not determine how it justified a staffing reduction of 322 employees.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

Michael Zimmerman 275-6195

HEALTH 7: PLANNING AND POLICY

I. PPSSCC ISSUE AND SAVINGS

"Is there a need within the Federal Government for long-range strategic planning related to the health care system, specifically in the areas of cost containment, financing and quality of health care?

"It is not possible to put a dollar figure on the potential of savings owing to the general nature of this issue. In the long run, however, the savings could be very substantial.

"The lack of long-range strategic planning within the Health Care Financing Administration (HCFA) is considered to be a management issue related to the Task Force's comments on Managerial Findings contained in the Executive Summary and Additional Materials section of this Report."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

PPSSCC was of the opinion that long-range, strategic planning for financing and controlling costs within the health care system was largely absent within HCFA. PPSSCC recommended changing HCFA into a Health Care Financing Commission with Commissioners serving 7-year terms, establishing a long-range planning committee within HCFA reporting to an Administrator appointed for a 7-year term, and appointing a Presidential Commission to study future courses of action. Although GAO agrees that improved long-range planning for the health financing programs would be beneficial, implementation of PPSSCC's recommendations would have numerous potential ramifications on the administration of Medicare and Medicaid in addition to the long-range planning aspect. For example, changing HCFA into a commission would result in an entirely different organizational and decision-making structure. A commission-type structure has normally been used when a deliberative, representative approach to managing an agency with broad adjudicatory and rulemaking powers was desired. A commission structure diffuses decision-making authority and can result in delays in making decisions. GAO notes that the Congressional Panel on Social Security Organization recently studied a similar proposal for a commission structure for the Social Security Administration and concluded that to achieve accountability and management effectiveness, a single administrator was preferable to a commission (see Senate Print 98-204, June 12, 1984). GAO has serious reservations about the overall impact of PPSSCC's recommendations on the administration of Medicare and Medicaid.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

Implementation of PPSSCC's recommendations will require congressional action. Because the recommendations have numerous potential ramifications for the administration of Medicare and Medicaid, GAO believes the PPSSCC recommendations should be viewed from an overall impact prospective and not just from a long-range planning basis.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

PPSSCC made no savings estimate for this issue.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

Michael Zimmerman 275-6195

HOSP 6: ORGANIZATION AND DECISION MAKING IN THE VETERANS ADMINISTRATION HOSPITAL SYSTEM

I. PPSSCC ISSUE AND SAVINGS

"Can the organizational structure of the Veterans Administration (VA) hospital system be modified to give hospital directors much greater control over facility planning, budgeting, and staff?"

The PPSSCC did not estimate savings resulting from its recommendations in this issue. It concluded that savings it had estimated in six other issues relating to VA hospital management were, to an extent, contingent upon providing incentives to individual facility directors to provide more cost-effective care.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC recommended that VA (1) decentralize control over several hospital management functions, including day-to-day operations, planning, and budgeting; (2) increase hospital directors' authority and provide them with incentives; and (3) propose legislation to eliminate congressional constraints on VA hospitals. GAO agrees with the PPSSCC conclusions and recommendations regarding the extent to which authority over and responsibility for day-to-day operations should be delegated to hospital directors. GAO believes that the directors need flexibility to adjust their operations to meet the needs of their patients including, for example, authority to hire staff, purchase equipment (within certain limitations), and shift resources from one program area to another. However, GAO also believes that while VA hospital directors should be allowed to manage their hospitals, VA central office should hold the hospital directors accountable for efficient operations.

GAO does not believe that the congressional constraints on VA hospitals have prevented them from operating efficiently. The requirement on the minimum number of operating beds was intended to ensure that the VA system would be available to back up the Department of Defense in time of war. The legislation covers both hospital and nursing home beds; therefore VA is not prevented from converting underused hospital beds to nursing home beds, which, on the average, are less expensive to operate. GAO is unaware of any legislative constraints on the number of nursing homes or occupied beds.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC stated that its recommendations concerning decentralization and incentives could be implemented within VA's existing authority and the recommendation concerning congressional constraints would take legislative action. GAO agrees.

VA's health care system is already decentralized in that hospital directors are responsible for controlling funds and staff. They also have the authority to organize and operate the hospital and to change internal procedures or workflows as dictated by local conditions. Regarding the PPSSCC recommendation to provide incentives for hospital directors, VA expects its new resource allocation system to create substantial incentives for managers to make their facilities more efficient.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

PPSSCC made no savings estimate for this issue.

V. RELEVANT GAO REPORTS

GAO/HRD-80-76 The Congress Should Mandate Formation of A Military-VA-Civilian Contingency Hospital System (June 26, 1980)

VI. GAO CONTACT

David Baine 275-6207

PRIV 4: VETERANS ADMINISTRATION HOSPITAL MANAGEMENT

I. PPSSCC ISSUE AND SAVINGS

"Do privatization opportunities exist within the Veterans Administration (VA) which could reduce expenditures and improve the health care benefits delivered to veterans?" By improving the efficiency of the system, the delivery of health care to veterans would be improved.

The PPSSCC estimated that implementation of a limited trial privatization program could save about $1.4 billion over a 3-year period. If fully implemented within the entire VA system on a permanent basis, the PPSSCC recommendations could save $13.2 billion over 20 years in the cost of constructing hospitals, $474 million over 5 years in constructing nursing homes, and $2.2 billion annually in the operating costs of hospitals and nursing homes.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC's premise in this issue is that the introduction of private-sector hospital management into the VA health care system could provide better service at less cost. It concluded that (1) use of a private-sector construction manager would produce savings in VA construction projects; (2) long-term contracts with private nursing home operators would result in nursing homes being built and operated for VA patients, with appropriate VA quality assurance safeguards, at one-third to one-fifth of VA's construction cost and at one-half of VA's operating costs; (3) private-sector expertise would improve VA's management information systems, forecasting methods, resource allocation processes, and sharing of high-cost services with non-VA hospitals, and (4) these efficiencies would improve the health care benefit delivered to veterans. The PPSSCC recommended that VA phase out its construction of hospitals, not construct any nursing homes not already under contract, contract for private management of three of its hospitals as a trial, and be subjected to a certificate-of-need process.

GAO believes that the PPSSCC recommendations go beyond the concept of introducing private sector techniques into the VA system. The recommendations concerning phasing out VA construction of hospitals and nursing homes, for example, appear to be inconsistent with current congressional policy, most recently stated in Public Law 97-306, that VA must maintain a comprehensive health-care system. The PPSSCC assumed that VA could meet its nursing home bed needs by either converting underused hospital beds or increasing its use of contract nursing home beds. Several factors may limit VA's ability to significantly use these options:

(1) underused hospital beds may not be economically converted to nursing home beds because of engineering problems or functional limitations such as finding enough underused hospital beds in one location to form a nursing home unit, and (2) contract nursing homes may not have enough beds available to meet VA's projected needs because of cost containment pressures exerted on them by states. The intent of the PPSSCC recommendations, as stated in the report, is more reasonable. Based on audit work at VA hospitals and outpatient clinics, GAO agrees that the VA hospital system can benefit from private sector hospital management techniques, such as use of construction managers on major building projects, alternatives to building new nursing homes, and improved management information systems.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC stated that the recommendation regarding the certificate of need process would need legislative action and the others could be accomplished through VA and OMB actions. GAO agrees. VA's nursing home planning process now includes consideration of less costly alternatives to new construction for each proposed project. The PPSSCC recommendation about sharing with non-VA hospitals might be difficult to implement because of the congressional commitment to a separate health-care system for veterans.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO believes that the PPSSCC savings estimates for each of its recommendations is overstated. The PPSSCC estimated that VA could reduce hospital construction costs by 40 percent (saving $543.6 million over 3 years) if it contracted with hospital companies to construct facilities according to performance specifications and the companies leased the facilities back to VA. GAO believes that savings would only be possible if the facilities were built with non-federal funds because federally-sponsored construction projects are subject to federal laws and regulations which do not apply to non-federal projects. VA officials have estimated that these laws and regulations add about 25 percent to a federally-sponsored project.

The PPSSCC estimated VA could save $313.8 million over 3 years if it stops building new nursing homes. GAO believes that VA would save construction funds if it could convert acute care beds into nursing home beds, or avoid construction by increasing its use of contracted beds. However, each project must be considered individually. GAO believes that the PPSSCC estimate of $78.0 million in

savings over 3 years from reduced operating costs is reasonable because VA costs for contract nursing home care is about half the cost of operating its own beds.

The PPSSCC estimated VA would save about $95.3 million annually (almost entirely due to reduced lengths of stay) at the three hospitals where private-sector managers would be used on a trial basis. GAO questions the PPSSCC methodology for estimating these savings. GAO believes that reduced lengths of stay will produce savings of the magnitude estimated only if a facility's workload is reduced to the point where a unit is closed or restaffed at a lower level.

Finally, the PPSSCC estimated VA could save about $396.2 million over 3 years through increased VA-community sharing.

The basis for the PPSSCC estimate was bringing the occupancy of the VA hospital system up to 80 percent. Because VA's actual occupancy rate is over 80 percent, no savings would result. GAO believes, however, that the PPSSCC recommendation could result in significant cost avoidance if new facilities are not built or are downsized, or if new equipment is not purchased.

V. RELEVANT GAO REPORTS

GAO/HRD-82-114	VA Should Consider Less Costly Alternatives Before Constructing New Nursing Homes (Sept. 30, 1982)
GAO/HRD-82-28	Opportunity To Reduce The Cost Of Building VA Medical Facilities (Dec. 30, 1981)
GAO/HRD-78-102	Inappropriate Number Of Acute Care Beds Planned By VA For New Hospitals (May 17, 1978)
B-164031(3)	Study Of Health Facilities Construction Costs (Nov. 20, 1972)

VI. GAO CONTACT

David Baine 275-6207

HOSP 4: PLANNING AND RESOURCE ALLOCATION IN THE VETERANS ADMINISTRATION HOSPITAL SYSTEM

I. PPSSCC ISSUE AND SAVINGS

"Can the Veterans Administration (VA) improve its planning and resource allocation processes to more accurately portray the needs and demands of the veteran population?"

The PPSSCC estimated that, by using a diagnosis related group (DRG)-based resource allocation and planning process to reduce lengths of stay and to improve occupancy levels, VA could save up to $4.9 billion over a 3-year period.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC made several recommendations to affect the future number and mix of beds in the VA health care system. GAO agrees with these recommendations, but believes the future size and shape of the VA system will depend more on congressional policy choices than on the processes VA uses to project the sizes of individual facilities. GAO believes that the key to VA's plans for the future number and mix of beds is a policy decision on the portion of veterans seeking care from VA that the agency should be ready to serve. Veterans with no service-connected disabilities are eligible for VA hospital and nursing home care only to the extent space is available. VA has been planning its facilities on the assumption that it would continue to serve the same portion of these veterans as it has historically. However, VA's recent report, "Caring for the Older Veteran," suggested that a substantially larger portion of these veterans may seek VA care in the future. GAO believes that any decision to expand the VA system to enable it to care for a greater portion of veterans with no service-connected disability should be explicitly made by the Congress. This decision, more than the actions recommended by the PPSSCC, will determine the resources needed to operate VA's hospital system in the future.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC stated that VA has the authority to implement its recommendations and GAO agrees. In GAO's opinion, VA has implemented or is planning to implement these recommendations. In fiscal year 1985 VA began using a diagnosis-related group (DRG)-based system to allocate its medical care funds to the 172 VA medical centers. VA is conducting a test using DRG's as a basis for estimating bed

requirements and has begun using an improved patient treatment file, all consistent with PPSSCC recommendations. In addition, VA's nursing home planning process includes a requirement that local officials consider less costly alternatives, such as conversion of underused hospital beds, before building new nursing homes. Regarding bed requirements for hospitals to be replaced or modernized, VA uses a bed sizing model based on historical utilization trends.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO believes that the PPSSCC's savings estimates are not reasonable. The PPSSCC assumed that reduced lengths of stay would allow VA to reduce its variable costs. GAO believes that savings of the magnitude estimated will only result when a facility's workload has been reduced to the point where bed sections or wards are closed or restaffed at lower levels. The PPSSCC's estimates of savings from using private sector lengths of stay for bed projections are overstated because VA's methodology for facility sizing currently takes private sector lengths of stay into account. Finally, PPSSCC's calculations of savings which will result if VA closes enough beds to achieve an 80 percent occupancy rate are inaccurate. The PPSSCC concluded that VA would need about 83,400 hospital beds to operate at an 80 percent occupancy rate, and recommended that VA close 5,560 beds at a savings of about $1.2 billion. Recent VA data show that its hospitals, as a system, already had an 80.1 percent occupancy rate. Using the PPSSCC methodology and these VA data, there would be no savings from this recommendation.

V. RELEVANT GAO REPORTS

GAO/HRD-82-114	VA Should Consider Less Costly Alternatives Before Constructing New Nursing Homes (Sept. 30, 1982)
GAO/HRD-78-102	Inappropriate Number Of Acute Care Beds Planned by VA for New Hospitals (May 17, 1978)

VI. GAO CONTACT

David Baine 275-6207

HOSP 2: SHARING HEALTH RESOURCES IN THE FEDERAL HOSPITAL SYSTEM

I. PPSSCC ISSUE AND SAVINGS

"Can the Veterans Administration (VA) and Department of Defense (DOD) Health Care Systems take advantage of opportunities for the sharing of health care resources that would be beneficial to both veterans and members of the armed forces and result in reduced costs by minimizing duplication and under use of those resources?"

By actively promoting the sharing concept and pursuing sharing opportunities, VA and DOD can more efficiently use health care resources. Due to the number of sharing opportunities available, however, the PPSSCC stated that "it is impossible to accurately determine the savings that could potentially accrue from sharing" health resources. PPSSCC nevertheless concluded that the most essential -- although not quantifiable -- benefit from shared health resources would be improved effectiveness and efficiency resulting from a well-planned, consistent, health planning policy.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO concurs with the intent of PPSSCC's recommendations which call for centralized DOD sharing oversight responsibility, hospital bed sharing between VA and DOD, and joint ADP needs assessments and systems development on a coordinated basis. GAO notes, however, that a PPSSCC recommendation in HOSP 3 which calls for immediate expansion of TRIMIS (tri-service medical information system) may be inconsistent with its recommendation to conduct joint VA/DOD medical ADP needs assessments.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

Due to the numerous programs and program elements which comprise the VA and DOD health care systems, the implementation authority, feasibility, and status of sharing of medical resources must be examined on a case-by-case basis. Many sharing opportunities can be pursued by VA and DOD without further congressional involvement. Other sharing opportunities would require legislative action, such as amendments to the Veterans' Administration and Department of Defense Health Resources Sharing and Emergency Operations Act (Public Law 97-174, (1982).

DOD and VA have made progress in pursuing sharing initiatives. In January 1984, DOD established a new (part-time) position whose incumbent is responsible for monitoring implementation of DOD/VA sharing activities and assisting in DOD policy development relating to sharing. VA appointed a Director of Emergency Operations and Health Resources Sharing in August 1983.

As of October 1984, there were 81 sharing agreements at 51 locations in effect between VA and military health facilities. These agreements include sharing of inpatient services in many cases. In addition, VA is considering proposing legislation in 1985 to more fully define the eligibility of DOD dependents for shared services under Public Law 97-174. VA's current interpretation of that law prohibits VA from providing services to DOD dependents of active duty, retired, or survivors of deceased military members.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO agrees with the PPSSCC's conclusion that the improved effectiveness and efficiency resulting from sharing can not be accurately quantified except on a case-specific basis. However, GAO found numerous instances where sharing between federal facilities would be cost-effective and believes that increased sharing among these facilities would result in substantial savings to the government.

V. RELEVANT GAO REPORTS

GAO/HRD-81-13	Sharing of Federal Medical Resources in North Chicago/Great Lakes, Illinois Area (Oct. 6, 1980)
GAO/HRD-78-54	Legislation Needed To Encourage Better Lse of Federal Medical Resources and Remove Obstacles to Interagency Sharing (June 14, 1978)

VI. GAO CONTACT

David Baine 275-6207

HEALTH 5: EXCESS CAPACITY

I. PPSSCC ISSUE AND SAVINGS

"Should financial incentives/disincentives be incorporated as a collateral function in hospital reimbursement programs under Medicare and Medicaid to reduce excess hospital capacity?

"Savings of $939 million in three years could result from changing hospital reimbursement programs. Another $662 million of new revenues could be possible over three years if Congress would reduce the availability of tax-exempt financing."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

Excess hospital capacity increases the overall cost and Medicare's cost of providing hospital services. Some form of incentives/disincentives to control excess capacity is needed. PPSSCC made a number of recommendations designed to decrease excess capacity through controls on Medicare payments related to hospital capital costs and controls over tax-exempt financing for hospital construction. PPSSCC recommends implementation of two provisions of Medicare law (sections 2101 and 2102 of the Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35)) that were designed for Medicare's cost reimbursement system and that may not be the most appropriate in view of the enactment of a prospective payment system. Prospective payment provides a different set of overall incentives and disincentives to hospitals than the former cost reimbursement system.

PPSSCC also recommends that certain specific controls over hospital capital costs be included in the prospective payment system. GAO agrees that controls are needed to ensure that unreasonable capital costs are not paid. However, the method for paying capital costs under Medicare's prospective payment system has not been decided by the Congress and many options are available to the Congress. For example, the options include (1) continuing to pay for hospital capital costs on a reasonable cost basis, (2) grouping hospitals by selected criteria such as bed size and/or location and paying all hospitals in a group the average capital costs of hospitals in that group, and (3) paying hospitals the same amount based on the average capital costs incurred by all hospitals. The method selected will determine the incentives toward capital expenditures hospitals will have and, therefore, the controls that will be necessary to prevent the incentives from having perverse effects. Thus, the selection of a method will, in large part, determine the kinds of controls that will have to accompany it. Therefore, GAO

cannot determine at this time whether the capital cost controls recommended by PPSSCC will be the most appropriate ones under the yet to be selected methodology for paying hospitals for capital costs.

Finally, PPSSCC recommends that the use of tax-exempt financing of hospital projects be limited. This might increase tax revenues (if it reduced the total amount of tax-exempt borrowing) and could have some impact in reducing excess hospital capacity. However, limiting tax-exempt financing could also have negative impacts on the ability to finance and/or the cost of financing those hospital capital projects that are still needed.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

PPSSCC's recommendation to implement sections 2101 and 2102 of Public Law 97-35 could be accomplished by administrative action. Its recommendations to institute specific capital cost controls and to limit tax-exempt hospital financing would require legislative action. Implementation of sections 2101 and 2102 of Public Law 97-35, originally designed for a cost reimbursement system, may not be feasible or desirable under Medicare's new hospital prospective payment system. Under the prospective payment system, capital costs such as interest and depreciation are currently not used in establishing the prospective rate but rather are passed through and paid to the hospital on a reasonable cost basis. The Social Security Amendments of 1983 require HHS to report to the Congress on the methods, along with proposals for legislation, by which the capital-related costs associated with inpatient hospital services can be included in the prospective payment system. If a method acceptable to the Congress of doing this is found, capital costs will be included in the prospective payment rates beginning October 1, 1986.

GAO has addressed the PPSSCC recommendation to limit tax exempt financing in a broader context. Under Ex 2: Tax Exempt Bonds, GAO noted a sharp increase in the volume of tax-exempt bonds and found merit in raising the issue of whether steps should be taken to limit the use of these bonds, including hospital bonds. Some limitation has already occurred. The Congress enacted, through provisions included in the Deficit Reduction Act of 1984, some restrictions on one of the tax-exempt financing mechanisms--Industrial Development Bonds--used by some hospitals. But the general limitation issue deserves further consideration.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The savings estimate for the recommendations is too high because it assumes virtually all excess capacity would be eliminated and, moreover, eliminated almost immediately.

Because of Medicare's recent conversion to a prospective payment system and because the method for including hospital capital costs under this system has not been decided by the Congress, it is uncertain what effect the actions PPSSCC recommends would have on excess hospital capacity. Also, adjustment of hospital supply to changes in payment mechanisms would most likely be a gradual process taking a number of years. The revenue increase from restricting tax-exempt bonds for hospital construction assumes that a 50 percent reduction in their use would result but provides no support for this level of decrease. Any revenue increase would also depend on whether or not tax-exempt borrowing for other projects substituted for the hospital projects and, if not, then whether or not investors found other, equally effective ways of sheltering income.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

Michael Zimmerman 275-6195

HOSP 5: THE VETERANS ADMINISTRATION HEALTH FACILITIES CONSTRUCTION PROGRAM

I. PPSSCC ISSUE AND SAVINGS

"Can the high cost of constructing Veterans Administration (VA) hospitals and nursing homes be reduced so that the costs begin to approximate the construction costs of well-managed private multihospital and nursing home systems?" The PPSSCC estimated that efficient management of the VA construction program could produce savings of about $1.3 billion over a 3-year period.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO agrees with the PPSSCC conclusion that VA should pursue alternatives to building more nursing homes. In a 1982 report, GAO recommended that VA consider conversion of underused acute care beds for long-term care and increased use of community facilities before building new nursing homes. However, GAO believes that the PPSSCC recommendation--that the VA stop constructing new nursing homes--is too extreme. The PPSSCC assumed that VA could meet its nursing home bed needs by either converting underused hospital beds or increasing its use of contract nursing home beds. At least two factors may limit VA's ability to significantly use these options: (1) underused hospital beds may not be economically converted to nursing home beds because of engineering problems or functional limitations such as finding enough underused hospital beds in one location to form a nursing home unit, and (2) contract nursing homes may not have enough beds available to meet VA's projected needs because of cost containment pressures exerted on them by states.

GAO does not agree with the PPSSCC recommendations that VA contract with a medical care consulting group to develop sound construction criteria and reorganize the Office of Construction.

As discussed in issue HOSP 4, GAO believes that the key to VA construction planning is a policy decision on the portion of veterans with no service-connected disabilities that VA should plan to care for in its facilities. GAO believes that once that decision is made, VA has the capability, either through its inhouse staff or through its use of private sector engineering firms, to plan and contract for the construction of new facilities to serve those veterans.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC stated that its recommendations could be implemented within VA's existing authority and GAO agrees. As GAO recommended in a September 1982 report, VA's nursing home planning process includes a requirement that local officials consider less costly alternatives to construction of new facilities. VA has authority to contract for planning assistance and has contracted with a consulting firm for a comprehensive study of VA's organization and procedure for constructing health care facilities.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

Almost half of the PPSSCC's projected savings would result from abandonment of VA's nursing home construction plans. GAO believes, however that the PPSSCC (1) overestimated VA's construction costs per bed, (2) underestimated the cost of converting an acute care bed into a long-term care bed, (3) miscalculated the number of excess acute care beds, and (4) erroneously assumed that the Congress mandated that VA have 14,000 nursing home beds by 1987. The other savings would result from a reduction in staff of VA's Office of Construction, a reorganization and streamlining of the construction management process, and changes in construction planning criteria. GAO had no basis to assess the PPSSCC's estimates regarding the proper size of the Office of Construction. GAO questions the PPSSCC's conclusion that changes in VA's construction policies and procedures would reduce the cost of VA hospital construction to a figure not appreciably higher than the cost of comparable non-federal hospitals. GAO believes that because federally-sponsored construction projects are subject to federal laws and regulations which do not apply to non-federal projects, the PPSSCC's savings estimates are overstated. VA officials estimated that these laws and regulations add about 25 percent to a federally-sponsored project. GAO also believes that savings attributable to smaller sized replacement facilities are erroneous because VA has already sized these facilities based on private sector lengths of stay (see issue HOSP 4).

V. RELEVANT GAO REPORTS

GAO/HRD-82-114	VA Should Consider Less Costly Alternatives Before Constructing New Nursing Homes (Sept. 30, 1982)
GAO/HRD-82-28	Opportunity To Reduce The Cost Of Building VA Medical Facilities (Dec. 30, 1981)

VI. GAO CONTACT

David Baine 275-6207

HOSP 13: MEDICAL CARE COST RECOVERY OPPORTUNITIES IN THE VETERANS ADMINISTRATION HOSPITAL SYSTEM

I. PPSSCC ISSUE AND SAVINGS

"Can Veterans Administration medical care cost recovery be improved if exclusionary clauses in private health insurance contracts are prohibited, and if means tests are established for veterans with non-service-connnected illnesses?"

The PPSSCC estimated that additional recovery could amount to about $1.4 billion over 3-years.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

This issue involves VA's ability to (1) collect from private health insurers for care provided to their beneficiaries in VA hospitals and (2) develop a means test to determine whether nonservice-connected veterans under age 65 have the ability to defray the cost of necessary medical care. Many private health insurance policies have clauses which preclude payment for care provided in federal hospitals. Regarding the means test, VA has been authorized to develop such a test since 1980 but as of December 1984 had not done so. GAO believes the issue and the associated recommendations made by PPSSCC are valid. GAO has long advocated VA recoveries from private health insurance. However, the Senate Committee on Veterans' Affairs did not support legislation that would have eliminated the exclusionary clauses because of questions about, among other things, the constitutionality of such legislation, the administrative costs that would be associated with recovery efforts, and the possibility that insurance companies would refuse to pay for VA care on the grounds that VA could not provide an itemized bill for the service provided. The Committee also expressed concern about the reliability of VA's cost savings estimate and questioned whether those veterans who had private health insurance coverage had used up their coverage before they turned to VA. Although the PPSSCC did not address these concerns, GAO is completing a review which addresses each concern.

Although GAO has not reported on the subject of a means test, it believes that implementation of such a test would result in savings from a reduced patient load if significant numbers of nonservice-connected veterans under the age of 65 are deemed to be able to defray the cost of their care.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC stated that legislation would be needed to prohibit exclusionary clauses in private health insurance contracts and that VA had the authority to devise a means test. GAO agrees. Congressional action to prohibit exclusionary clauses may be dependent on the Congress getting answers to the questions raised during Senate hearings. VA currently seeks recoveries in workers' compensation and negligent third party cases. Although recovery from private health insurance would significantly increase the number of claims to be prepared and processed, the system framework is in place if legislation is passed.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO believes that the PPSSCC's estimate of recoveries from private health insurers is generally reasonable. The PPSSCC's estimate of about $1.4 billion over a 3-year period included costs such as long-term costs that are not normally covered by private health insurance. In arriving at its estimate, the PPSSCC also assumed that veterans with private health insurance had not used up their coverage before coming to VA. Because the Senate Committee on Veterans Affairs previously expressed concerns about such savings estimates, GAO believes the PPSSCC's estimate will be viewed as inconclusive. Ongoing GAO work on this issue, based on fiscal year 1982 data, indicates that VA recoveries from private health insurance companies for in-hospital care would have ranged from $98 million to $284 million, depending on whether insurance companies would reimburse VA (1) based on actual lengths of stay or on community averages, and (2) for between 80 and 100 percent of the costs. GAO's estimate of potential recoveries is conservative, however, because many veterans excluded from GAO's questionnaire universe probably had private health insurance. The PPSSCC did not estimate any savings from its recommendation to establish a means test.

V. RELEVANT GAO REPORTS

GAO/HRD-81-62	Cost Cutting Measures Possible If Public Health Service Hospital System Is Continued (June 10, 1981)
GAO/HRD-77-132	New Strategy Can Improve Process For Recovering Certain Medical Care Costs (Sept. 13, 1977)

B-114859 Possible Ways For The Veterans Administration To Seek Reimbursement From Insurance Companies For Hospital Care Furnished To Privately Insured Veterans (Feb. 3, 1970)

VI. GAO CONTACT

David Baine 275-6207

HOSP 11: MEDICAL CARE COST RECOVERY FROM INSURED INACTIVE MILITARY BENEFICIARIES

I. PPSSCC ISSUE AND SAVINGS

"Can the Department of Defense (DOD) collect the cost of medical care provided by DOD medical facilities from an eligible, inactive beneficiary covered by private health insurance?"

An estimated $1,211.4 million in revenue could be generated over a three-year period by actively pursuing such claim opportunities.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC recommendations are directed toward permitting DOD to recover costs from private health insurers of non-active duty DOD beneficiaries for care provided to these beneficiaries in DOD medical facilities. DOD is now prohibited from doing this by exclusionary clauses in insurance contracts which generally stipulate that no payments will be made for care in federal medical facilities. The PPSSCC issue and recommendations are consistent with prior GAO findings and recommendations. GAO has advocated government recoveries from private health insurance. In a September 1977 report on DOD medical care recoveries, GAO recommended that DOD revise admission forms, revise regulations to insure that recovery from private health insurance is pursued, and develop procedures to determine the reasonable cost of medical care provided. The report also discussed legislation to prohibit exclusionary clauses.

GAO believes that a PPSSCC-recommended special study of potential DOD recovery opportunities should be delayed until the results of DOD's 1984 Health Care Beneficiary Survey are assessed. That survey includes questions on the extent to which beneficiaries have private health insurance.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

Legislation would be necessary to prohibit exclusionary clauses in private health insurance contracts. Such legislation was considered by the House of Representatives during the 98th Congress (H.R. 5372 and H.R. 4666). No final action had been taken on the bills prior to adjournment of the 98th Congress. DOD supports passage of such legislation.

DOD is conducting the 1984 Beneficiary Survey which includes many questions on beneficiaries' health care insurance coverage. GAO was told by DOD officials that the Uniform Chart of Accounts is being refined over time to produce increasingly accurate data on the real costs of providing care.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC savings estimate may be overstated because it (1) assumed that any beneficiary who had medical care coverage had "full private health insurance" that would have paid 80 percent of inpatient and outpatient costs, (2) does not consider the administrative costs to process billings, (3) assumes that all outpatient services would be covered by private health insurance (although some services, such as dental care, are generally not covered), (4) does not compensate for the longer lengths of stay in DOD hospitals which may not be covered, and (5) does not determine the extent to which beneficiaries had exhausted their private health insurance coverage before turning to DOD.

V. RELEVANT GAO REPORTS

GAO/HRD-82-499	Stronger VA and DOD Actions Needed to Recover Cost of Medical Services Provided to Persons with Work-Related Injuries or Illnesses (June 4, 1982)
GAO/AFMD-82-2	Government Loses Revenue Because of Low Medical Care Charges to Liable Third Parties (Dec. 16, 1981)
GAO/HRD-81-38	Performance of CHAMPUS Fiscal Intermediaries Needs Improvements (Feb. 2, 1981)
GAO/HRD-77-156	Letter Report to the Secretary of Defense Regarding Inadequacy of Reimbursement Rate to Cover Costs of Inpatient Care at Army's Burn Center (Sept. 29, 1977)

VI. GAO CONTACT

David Baine 275-6207

HOSP 12: REDUCING DUPLICATE PAYMENTS IN THE FEDERAL HOSPITAL SYSTEM

I. PPSSCC ISSUE AND SAVINGS

"Has the Veterans Administration (VA) or the Indian Health Service (IHS) determined the full extent of erroneous payments for medical services and taken appropriate action?"

The PPSSCC estimated that an estimated $1.131 billion could be saved over a 3-year period if reimbursement criteria were standardized and fiscal intermediaries contracted to process claims.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

This PPSSCC issue concerns the systems used by VA and IHS to pay for care provided to their beneficiaries by non-federal facilities and professionals. The PPSSCC found that VA and IHS reimbursement programs paid different fees for similar services and used costly systems to process claims. GAO agrees with the PPSSCC conclusion that VA and IHS should pay for health care provided to their beneficiaries by non-federal hospitals and physicians on a basis that is similar to Medicare. That is, VA and IHS should judge the reasonableness of the charges for care using fee schedules similar to Medicare's. The advantages of use of the same fee system for the several federal programs are: equity, in that the federal government will be allowing the same up-to-date charges for common services in specific areas (payments will vary because of differences in co-payment and deductible requirements); accuracy, in that processing clerks will not have to interpret physician bills but can rely on a common coding system and common forms; and timeliness, as reduced clerical activity should result in timelier reimbursements.

The PPSSCC also concluded that because VA and IHS claims processing systems were costlier than the Medicare system, VA and IHS should use fiscal intermediaries to process the claims. GAO disagrees because the PPSSCC used unreliable and probably overstated data to reach that conclusion.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC concluded that VA and IHS had the authority to pay claims on a basis similar to Medicare and to use fiscal intermediaries. It also concluded that VA and IHS would need additional legislative authority to use the Medicare manuals. GAO believes that VA and IHS have the

authority to pay claims on a basis similar to Medicare including use of data from the Medicare manuals, but that additional legislative authority would be necessary to allow fiscal intermediaries to pay claims.

VA has begun development of a system to review claims for inpatient services using Medicare's diagnosis-related group (DRG) based prospective payment system. GAO is completing a review of the need for and feasibility of VA switching to a Medicare-type fee schedule for review of physician claims. According to HHS, IHS has implemented a DRG type system and plans to propose legislation to make private hospitals ineligible for Medicare reimbursement unless they accept Medicare rates as the maximum IHS needs to pay for contract care.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC's savings estimate was based on lower payments for contract care, lower claims processing costs and reduced duplicate payments. Based on preliminary audit work on VA payments to private physicians, GAO believes that the PPSSCC savings estimate regarding lower payments is reasonable, assuming VA pays at the same rates as Medicare. The savings would be less if VA used Medicare data but paid based on higher rates. The data from which the PPSSCC estimated lower payments at IHS has been revised downward by about 50 percent; therefore, these estimates are overstated. GAO believes that PPSSCC also overstated the estimated savings due to lower claims processing costs because the estimate of current VA and IHS processing costs are probably much lower than cited. GAO has no comment on the PPSSCC savings estimate for reductions in duplicate payments.

V. RELEVANT GAO REPORTS

GAO/HRD 80-10 Duplicate Payments for Medical Services by VA and Medicare Programs (Oct. 22, 1979)

VI. GAO CONTACT

David Baine 275-6207

PHS 2: INDIAN HEALTH SERVICE (IHS) CONTRACT HEALTH SERVICES PROGRAM

I. PPSSCC ISSUE AND SAVINGS

"Can an improved fee reimbursement system and methods of claims processing be implemented for the contract care program of the Indian Health Service (IHS), resulting in reduced costs and higher levels of patient care?"

Cost savings are estimated at $116.9 million over a 3-year period.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO believes establishing an improved fee reimbursement system and methods of claims processing for the IHS contract care program could result in reduced costs. However, how higher levels of patient care can be achieved from these actions was not addressed. The PPSSCC made five recommendations which if adopted and implemented could result in program savings. These are

--establish a standardized fee reimbursement system based on the Medicare rate structure;

--contract with a fiscal intermediary to provide claims processing services;

--develop benefits packages for contract care services unique to each service unit;

--develop an automated system of recording commitment and payment information for all service units; and

--reduce the contract care staff by approximately 160 positions.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

Legislation would be required to implement the first two recommendations. According to HHS, IHS has, similar to Medicare, implemented a diagnostic related grouping (DRG) reimbursement system and plans to propose legislation to make private hospitals ineligible for reimbursement unless they accept Medicare rates as the maximum that IHS will pay for contract care. HHS determined it was not cost effective to contract with fiscal intermediaries to process contract health care claims. With regard to the remaining three

recommendations, HHS advised GAO that individual tribal benefit packages have been defined and are under review and studies are underway to develop comprehensive ADP plans so that IHS can more fully automate its cost accounting and patient care billing information. HHS disagreed that IHS could reduce its contract care program staff by 160 positions since some of these staff would be diverted to other tasks as automation for cost accounting and patient billing is implemented.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO has not evaluated the savings that would result from implementation of the PPSSCC recommendations on this issue. Most of the PPSSCC savings relate to one of the recommendations--establishing a standardized reimbursement system with rates similar to Medicare. PHS officials stated that the implementation of a DRG-type reimbursement system in the IHS contract care program has reduced program costs and these cost reductions were assumed in the FY 1984 IHS budget. The officials could not, however, quantify these cost reductions. Proposed legislation to make IHS reimbursement rates similar to Medicare may further reduce program costs.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

David Baine 275-6207

PHS 1: NATIONAL INSTITUTES OF HEALTH (NIH) RESEARCH GRANTS AND CONTRACTS

I. PPSSCC ISSUE AND SAVINGS

"Can administrative and equipment costs within the grants and contracts process be reduced?"

Cost savings resulting from these reductions are estimated at $554.4 million over a 3-year period.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO believes savings can be achieved for costs NIH incurs in administering grants and contracts and in the costs of equipment used in support of research. The PPSSCC recommendations suggested to achieve these savings, however, may not be feasible. The recommendations attempt to reduce costs by establishing a ceiling on the costs of processing grants and contracts, eliminating the purchase of research equipment, at least temporarily, and reduce by 10 percent allowable indirect costs for research grants. The application of an arbitrary, single set of initiatives, in GAO's view, may be too stringent for practical application. In addition, their adoption may circumvent the attainment of NIH program goals.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

While agreeing in principle that implementation of the proposed recommendations could result in savings, HHS expressed reservation about the feasibility of implementing them HHS has authority to control administrative and equipment costs associated with research grants and contracts.

With regard to establishing a ceiling on administrative costs of processing grants and contracts, HHS believes an across the board limit is not feasible because of significant differences in program goals among the component NIH institutes. According to HHS, NIH is studying the establishment of an acceptable range for these costs which it expects to implement in July 1985. GAO believes the studies should be completed and considered in establishing a limitation on such administrative costs.

Regarding the elimination of NIH funding for equipment acquired through research grants, HHS believes that such action is not appropriate because of a shortage of needed research equipment at many research institutions. In this connection, the PPSSCC proposal is

based on its observations at only 2 of the 700 NIH grantee institutions. A 1978 GAO report proposed that OMB establish minimum requirements for grantees to avoid unnecessary equipment purchases, and procedures to check grantee compliance with the requirements. No action was taken on our proposal. According to HHS, NIH is currently studying equipment issues. GAO believes this study should be completed and appropriate action taken to control research equipment use and purchases.

GAO believes the PPSSCC proposal to reduce indirect costs of universities by 10 percent does not contain substantiating evidence to support a set percentage reduction applicable to all universities. In a recent report, we proposed that a fixed allowance for large institutions' departmental administration expenses be established to minimize controversy over present subjective estimating methods which are used. HHS believes that an overall governmental policy on overhead costs should be established and advised GAO that OMB is studying the matter.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC's savings estimate may not be realistic in view of the concerns raised by HHS and the actions it has underway to study the establishment of an acceptable range of administrative costs for processing research grants and contracts and for providing necessary equipment to research institutions. These actions may result in lower achievable savings.

V. RELEVANT GAO REPORTS

GAO/HRD-84-3 Assuring Reasonableness of Rising Indirect Costs on NIH Research Grants--a Difficult Problem (Mar 16, 1984)

GAO/HRD-78-52 Minimum Requirements are Needed for Colleges and Universities to Justify Research Equipment Purchases (May 11, 1978)

VI. GAO CONTACT

David Baine 275-6207

PHS 4: IHS SERVICE POPULATION

I. PPSSCC ISSUE AND SAVINGS

"Can a clearer definition of the Indian Health Service (IHS) service population better target the limited resources available for Indian health care?"

A more precise and uniform definition of the service population could result in estimated savings of $160.3 million over a 3-year period.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

At a time when the growing demand for IHS services has exceeded the supply of such services that can be provided with limited resources, a narrower and clearly defined service eligibility requirement seems reasonable. The PPSSCC recommended that eligibility be restricted to persons with at least one-fourth Indian blood. GAO has no views on specific Indian blood content levels which should be required for eligibility.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

IHS has the authority to establish a specific blood quantum requirement under existing legislation. However, the PPSSCC recommendation addresses an important government policy issue which needs congressional and constituent concurrence. The effect on the existing population, which has grown in recent years, could be severe. Action has already been taken to delimit the IHS service population. Public Law 97-394, December 30, 1982, limited the IHS-provided services to non-Indian spouses and dependents to the treatment of pregnancy and conditions considered a threat to public health. IHS would set eligibility criteria according to each tribe's standards and has accordingly requested comments from tribes on various options for determining eligibility criteria.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

While GAO has not evaluated the savings estimate, PHS has stated that these estimates are overstated by about $64 million because they include savings resulting from the removal of non-Indians from regular service eligibility. PHS officials stated that these savings have already been assumed in the IHS budget as a result of implementing P.L. 97-394.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

David Baine 275-6207

PHS 7: IMPROVE COLLECTIONS FROM PHS STUDENT LOANS

I. PPSSCC ISSUE AND SAVINGS

"Can an improvement in the administration of the Public Health Service's (PHS) various scholarship and loan programs for the health professions improve collections and thereby achieve substantial savings in the costs of funding the programs?"

PPSSCC cost savings are estimated at $6 million over a 3-year period; however, these are offset by estimated 3-year implementation costs of $6.6 million. Accelerated cash collections for a 3-year period are estimated at $30 million.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO believes that changes in the administration of PHS's health professionals scholarship and loan programs recommended by the PPSSCC would help achieve a more reasonable approach to the debt collection aspects of these programs. According to the PPSSCC, present PHS policies and practices allow debts to be easily waived or forgiven and provide extended repayment periods and small monthly repayment amounts. PPSSCC made nine recommendations, of which six would improve PHS debt collection policies and procedures. These six recommendations would:

--reduce debt repayment periods;

--establish monthly repayment schedules;

--increase minimum monthly repayment amounts;

--increase late payment charges;

--deemphasize repayment avoidance opportunities in loan documentation; and

--increase Health Resources and Services Administration (HRSA) financial reporting requirements from annual to quarterly, and include accounts receivable aging schedules.

The remaining three PPSSCC recommendations would enhance PHS debt collection and auditing capability by providing more debt collection tools, adding in-house audit staff and reforming the Office of Debt Management within HRSA.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

PHS has taken actions under 42 U.S.C. 292-298(b-3) to address the majority of the PPSSCC recommendations under this issue. HHS believes that auditing functions, however, should remain within the office of the HHS Inspector General. According to HHS, program oversight and monitoring is being stepped up.

With regard to the various PPSSCC recommendations to put PHS debt collection tools on a par with other government agencies, HHS indicated that it has made several legislative proposals which would enhance PHS' debt collection capabilities along the lines proposed by the PPSSCC.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

While HHS generally agrees with the PPSSCC proposed initiatives, it is doubtful that the financial improvements suggested by the PPSSCC proposals can be fully implemented within the timeframe suggested in view of the protracted legislative process. Accordingly, the anticipated savings may not be realized at the magnitude PPSSCC estimates. The financial impact of this PPSSCC issue is based on the implementation of all the PPSSCC proposals including the addition of 40 auditing positions within the HRSA. The PPSSCC has arbitrarily set a goal of $10 million in annual increased debt collections over a 6-year period to reduce total delinquent accounts to about $5 million. Thus, the bulk of the savings estimate is actually related to accelerated cash collections rather than cost savings. HHS has indicated that adding audit capability to HRSA is not feasible. Further, the legislative proposals made by HHS to enhance HRSA's debt collection capabilities extend into the FY 1986 legislative program.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

David Baine 275-6207

PHS 8A: CENTERS FOR DISEASE CONTROL (PHOENIX FIELD OFFICE)-RELOCATION OF DIVISION OF HEPATITIS AND VIRAL ENTERITIS

I. PPSSCC ISSUE AND SAVINGS

"Can the Division of Hepatitis and Viral Enteritis of the Center for Infectious Diseases (CID) in Phoenix be relocated to the Center for Disease Control's (CDC) main campus in Atlanta, Georgia?"

An estimated $1.6 million could be saved over a 3-year period, less the initial implementation cost of $.9 million, for a net savings of $700,000.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO has no position on the merits of the relocation proposal. HHS agreed with the PPSSCC proposal and took implementing action in FY 1983.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

On February 3, 1983, the Secretary, HHS approved a CDC-initiated organizational change which abolished the Division of Hepatitis and Viral Enteritis within the Center for Infectious Diseases, CDC. The Division functions are being carried out by other components of the Center for Infectious Diseases in Atlanta.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO has not reviewed the reasonableness of the savings estimates. HHS has indicated substantial agreement with the PPSSCC estimates of net savings resulting from the closing of the Phoenix field office and has stated that these savings have been assumed in the CDC budget.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

David Baine 275-6207

ASSET 19: GSL ORIGINATION FEE INCREASE

I. PPSSCC ISSUE AND SAVINGS

Should the Guaranteed Student Loan (GSL) origination fee be increased?

Three-year cumulative increased revenues/receipts are estimated by the PPSSCC at $1,572.2 million.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATION

GSL origination fees--currently 5 percent of student loan amounts--are retained by lenders from loan proceeds to borrowers. For example, a student who borrows--and must therefore repay--$1000 receives net proceeds of $950. Increasing GSL origination fees from 5 to 10 percent will reduce federal interest subsidies paid by the Department since such fees are deducted from the subsidies. Students who would normally borrow less than their annual loan limit could probably borrow more to cover the higher origination fee. However, there would be a reduction in money available to students who would have borrowed their maximum loan amount. GAO has no position on whether this PPSSCC recommendation should be implemented.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

Legislation would be required to increase the origination fee. The administration proposed an increase from 5 to 10 percent for FY 1983, and a similar but more limited increase for FY 1984; both were rejected by the Congress. If the fees were increased, there should be no significant implementation problems because the mechanism for collecting the current 5 percent origination fee is in place.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

While GAO agrees with the PPSSCC's methodology for estimating the savings that would result from an increase in origination fees, the savings were based on Department of Education FY 1983 estimates of new loan volumes that have since been reduced. Applying the PPSSCC's methodology to the Department's FY 1985 loan volume estimates yields three year savings of about $1,249 million.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

Joseph Eglin, Jr. 245-9623

ED 1: LOAN PROGRAM CONSOLIDATION

I. PPSSCC ISSUE AND SAVINGS

Can the Department of Education gain significant financial benefits from the consolidation of various student loan programs into the larger and more cost-effective Guaranteed Student Loan Program and by reducing the Government's role as a lender of last resort?

According to the PPSSCC, by consolidating the various student loan programs into the Guaranteed Student Loan Program, payments to the National Direct Student Loan Program can be used to liquidate the $5 billion outstanding in the revolving fund. The PPSSCC estimates that at least $870 million can be recovered over three years, and that interest savings resulting from this cash flow improvement could total $185.9 million over three years.

An additional $1 billion could be saved over three years by requiring lenders to disburse loans in increments over an academic year rather than once a year, which would cause an improved cash flow of $4,680 million.

Other significant savings would result from greatly simplified administration and from the more favorable loan default rate of the Guaranteed Student Loan Program. These are not quantified at this time.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC proposal to consolidate the National Direct Student Loan Program with the Guaranteed Student Loan Program, both of which are highly subsidized, has merit and could result in substantial interest savings. Similarly, requiring lenders to disburse loans in increments over the academic year could also result in significant interest savings. On the other hand, the PPSSCC's recommendation to consolidate the Federally Insured Student Loan Program--a highly subsidized program which is being phased out--and the Auxiliary Loans to Assist Students Program--which is not highly subsidized--with the Guaranteed Student Loan Program may not result in any significant savings. In fact, depending on the extent to which Auxiliary Loans to Assist Students Program borrowers become eligible for the more highly subsidized Guaranteed Student Loan Program, such a consolidation could increase federal interest subsidies.

Regarding the PPSSCC's recommendation to reduce the federal government's role as a lender of last resort, there would be little benefit in such an action. Numerous non-federal organizations already exist at the state and

national levels to provide access to students unable to obtain loans in their area, so that the federal government seldom, if ever, needs to be the lender of last resort.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

Legislation would be required to implement the PPSSCC recommendations. The PPSSCC noted in its summary that the Congress has been reluctant to merge the programs even when they serve the same purpose. The Department of Education believes the actions are "legislatively infeasible" because similar efforts in the past have been consistently rejected.

GAO was also unable to to assess the extent to which (1) lenders would withdraw from the student loan programs if required to make multiple disbursements without the present financial incentives and (2) states would be willing to revise regulations to provide lender of last resort authority to state guaranty agencies.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC's estimates of interest savings which would result from consolidating the National Direct Student Loan Program with the Guaranteed Student Loan Program are based on loan recovery estimates and Guaranteed Student Loan Program administrative costs provided by the Department of Education, and an assumed Treasury borrowing rate which closely approximates current experience. Accordingly, the savings estimates appear reasonable. The PPSSCC did not estimate the financial impact of merging the Auxiliary Loans to Assist Students Program with the Guaranteed Student Loan Program. GAO was unable to assess the impact on federal costs because the PPSSCC did not describe the procedures which would be followed after the consolidation--the more highly subsidized Guaranteed Student Loan Program differs significantly from the Auxiliary Loans to Assist Students Program in terms of eligibility, repayment terms, and borrower interest rates. However, to the extent that Auxiliary Loans to Assist Students Program borrowers become eligible for guaranteed student loans and Guaranteed Student Loan Program repayment and interest rate terms apply, Federal interest subsidies will increase.

Regarding the PPSSCC's recommendation to require lenders to make multiple disbursements and eliminate the provision that allows lenders to earn interest paid by the Department for loan amounts not disbursed, the estimates of three year interest savings are overstated. While the PPSSCC's estimates of reduced average loan balances may be

reasonable, it (1) understated the interest subsidy rate paid by the Department and (2) inappropriately carried over first year interest subsidy savings on partially disbursed loans to subsequent years when the loans have been fully disbursed and the federal government pays full interest subsidies. By increasing the interest rate paid by the Department and eliminating carryover interest savings, GAO estimates that implementation of the recommendation would result in three year savings of $697.1 million as compared to the PPSSCC's estimated three year savings of $1 billion.

V. RELEVANT GAO REPORTS

GAO/HRD-81-124 Stronger Actions Needed to Recover $730 Million in Defaulted National Direct Student Loans (Sept. 30, 1981)

VI. GAO CONTACT

Joseph Eglin, Jr. 245-9623

ED 3: STUDENT LOAN DELINQUENCIES AND DEFAULTS

I. PPSSCC ISSUE AND SAVINGS

Could better procedures and a more effective debt management structure within the Department of Education reduce the student loan default rate and improve the collection of currently delinquent loans?

According to the PPSSCC, three-year savings of $495.4 million are possible.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC made a series of recommendations designed to increase collections on delinquent student loans and reduce loan default rates. One of the PPSSCC's eight recommendations is to return control for National Direct Student Loan (NDSL) delinquencies from educational institutions to the Department. Currently, institutions must attempt to collect delinquent loans for a statutory period of at least two years before the loans may be assigned to the Department. The other recommendations involve structuring the collection operation as an independent unit, using private attorneys for uncollected receivables, updating training of collection personnel, designing an exit interview form for institutions to use when students leave school, establishing realistic standards and goals, using ADP in the communication and dunning processes with debtors, and requiring parental signatures or co-signers on student loans.

GAO believes that the recommendations by the PPSSCC reflect good management principles that would result in collection improvements. The Department of Education agrees that the PPSSCC proposals have merit.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

Returning control of NDSL delinquencies to the Department requires legislation. GAO believes that the other recommendations can be implemented by the Department without legislation and are feasible; GAO sees no significant implementation problems.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

According to the PPSSCC, because sufficient data and information to accurately estimate savings were not available, it used its judgement and assumed certain default rate reductions that it believed would result from implementing its recommendations. Since the bases for the assumptions were not fully explained, GAO is unable to

assess the reasonableness of the savings estimate. The Department estimates that implementing the recommendations would result in 3-year savings of $552.0 million, or about $57 million more than the PPSSCC estimate.

V. RELEVANT GAO REPORTS

GAO/AFMD-83-57	Significant Improvements Seen in Efforts to Collect Debts Owed the Federal Government (Apr. 28, 1983)
GAO/HRD-81-124	Stronger Actions Needed to Recover $730 Million in Defaulted National Direct Student Loans (Sept. 30, 1981)

VI. GAO CONTACT

Joseph Eglin, Jr. 245-9623

ED 4: CONTRACTS AND DISCRETIONARY GRANTS

I. PPSSCC ISSUE AND SAVINGS

Could the Department of Education realize major cost savings from improvements in the award, administration, monitoring and closeout procedures which apply to discretionary grants and contracts?

PPSSCC estimates the three-year total cost savings from improved procedures at $207.6 million, of which over $100 million represents a one-time savings for timely action on dormant closeout reports.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO agrees that implementation of the basic management principles recommended by the PPSSCC--cooperation and communication among relevant staff, use of critical path planning, standardization of monitoring procedures, use of proper cash flow management procedures, having staff with the required specialized skills, and developing and using a management information system--has the potential for improving the Department's contracts and discretionary grants process by providing better and more timely information and enhanced controls. For the same reasons, GAO also agrees with the principle of developing closeout objectives for completed grants and contracts and with the recommendations to strengthen information resources management by raising it in the organizational structure.

GAO has no opinion on two of the PPSSCC's recommendations: to accelerate the trend toward use of block grants and to use regional office staff to screen discretionary grant applications. Neither recommendation is described in enough detail to allow analysis of the issues.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The recommendations pertaining to this issue could generally be implemented through administrative action. However, congressional action would be required to convert categorical programs into block grants.

According to a Department of Education status report, it began implementing most of the recommendations associated with this issue in 1982 and 1983. For example, the head of information resources--or ADP--was upgraded to an SES position. However, greater use of block grants has not been legislatively feasible, according to the report.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO is unable to evaluate the PPSSCC savings estimates. PPSSCC estimates that appropriate and timely actions on dormant closeout reports could produce a one-time savings in excess of $100 million. As backup, the report states that since 1973, 80,000 Department of Education accounts remain open with a total value of $584 million. However, no information is provided on how the PPSSCC arrived at the $100 million figure.

PPSSCC also estimates that implementing its recommendations would lead to savings of at least 5 percent of the Department's annual contract and discretionary grant expenditures. Again no information is provided on how the PPSSCC arrived at this percentage. The costs associated with the probable need to hire additional staff to carry out these functions are not discussed.

The PPSSCC estimates that it will cost $16.5 million over three years to implement the recommendations, including training staff in the areas of negotiation, administration, cost and price analysis, and contracting under federal procurement regulations. Information on implementation expenses, such as the number of staff to be trained, the types of training to be offered, and other relevant details are not provided.

A Department of Education status report indicates that it expects these recommendations to result in no savings in fiscal years 1985 through 1990.

V. RELEVANT GAO REPORTS

GAO/HRD-83-13 Department of Education Uncertain About Effectiveness of its Special Services Program (Nov. 12, 1982)

VI. GAO CONTACT

Joseph Eglin, Jr. 245-9623

ED 7: MANAGEMENT DIRECTION AND INCENTIVES

I. PPSSCC ISSUE AND SAVINGS

Can the Department of Education realize significant cost benefits from improved productivity and effectiveness by implementing a carefully conceived new "business plan"?

PPSSCC estimates the three-year cost savings from improved operations at $35 million.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO agrees that implementation of the basic management principles recommended by the PPSSCC--specifying objectives, budget requirements, and manpower allocations for each office; setting performance goals for each employee; instituting a reward system based on employee achievement of goals and objectives; developing a system for a periodic accounting of progress; preparing job descriptions which clearly indicate the abilities needed and using this information to recruit and train staff; engaging in long-range planning; and communicating with other units--has the potential for improving the Department's productivity and effectiveness by providing management and staff with better information and clearly defined objectives and rewards.

The PPSSCC's recommendations (1) to divest the Department of activities such as civil rights enforcement, student housing loans, and rehabilitative services, and (2) to return support functions such as personnel administration and budgeting to the program offices are not described in enough detail to allow analysis. For example, the PPSSCC does not indicate who would perform the Department's statutory responsibilities for civil rights enforcement, student housing loans, and rehabilitative services if the Department were divested of the responsibilities.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The recommendations pertaining to this issue could generally be implemented through administrative action. However, congressional action would be required to divest the Department of activities such as civil rights enforcement, student housing loans, and rehabilitative services.

According to a Department of Education report, it has begun to improve strategic planning, organizational control, and position management systems.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO is unable to evaluate the PPSSCC's savings estimate. The PPSSCC estimates that implementing its recommendations would lead to a $5 million savings in the first year, $10 million in the second, and $20 million thereafter for a three-year savings of $35 million. The PPSSCC arrived at these estimates by asking supervisors of the four largest program offices what salary and expense savings might be expected if the offices were provided clear-cut objectives, necessary resources, and authority to act. With responses ranging from 10 percent to 30 percent, the PPSSCC used the low figure of 10 percent of the current $300 million operating budget, or $30 million, and then attributed two-thirds--$20 million--to implementation of the recommendations associated with this issue. GAO has no basis for evaluating the reasonableness of these assumptions.

A Department of Education report indicates that it expects these recommendations to result in a three-year savings of $20.3 million.

V. RELEVANT GAO REPORTS

GAO/FPCD-81-26	Management and Compensation of Military and Civilian Federal Work Forces: Issues For Planning (Jan. 2, 1981)
GAO/FPCD-81-4	Federal Work Force Planning: Time for Renewed Emphasis (Dec. 30, 1980)

VI. GAO CONTACT

Joseph Eglin, Jr. 245-9623

SSA 10: STREAMLINED AND SIMPLIFIED APPEALS PROCESS

I. PPSSCC ISSUE AND SAVINGS

Can a new system and procedure be developed for handling Disability Insurance (DI) claims that will improve the quality and timeliness of the current system and reduce the number of claims that eventually enter the appeals system?

The PPSSCC recommendation is that SSA develop new procedures for the initial processing of disability claims and the processing and handling of appeals. Following this general recommendation are 36 specific recommendations listed under 7 categories. PPSSCC estimated that the 3-year savings associated with the recommendation would be $3.6 billion.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

Overall, GAO has many reservations about the recommendations. The recommendations essentially are aimed at limiting the role of administrative law judges (ALJs) to that of decision reviewers, who may not accept evidence nor consider issues not previously introduced in the administrative process. The recommendations also suggest eliminating oral arguments and testimony before the ALJs. The effect of these recommendations would be to restrict the manner in which claimants may pursue their claims. GAO believes this approach represents a fundamental departure from long-standing agency practice and is inconsistent with Administrative Procedure Act (APA) requirements. PPSSCC suggests that SSA's operations dictate procedures different than other agencies, with respect to ALJ hearings and the APA requirements. GAO does not share the PPSSCC view that SSA's requirements are so unique that they should be outside the APA.

Although GAO does not agree with the basic approach taken by the PPSSCC regarding this issue, some of the specific recommendations pertaining to better evidence development do appear to have merit and are generally supported by GAO.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

Some of the recommendations could be implemented by agency action. Others, including the more significant ones, would require legislation. Most of the recommendations generally would be very difficult to implement. There has been much Congressional and public concern over the last few years that SSA may have gone too far in tightening up its disability criteria. There also

has been much testimony and GAO findings regarding inadequate case development and bad judgments being made at the initial adjudication level. Some of the recommendations would improve decisions at this initial level and may be easier to implement; others, however, would face much opposition.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC prepared an overall savings estimate based on all the recommendations. For the 3 years, reductions in benefits account for $3.4 billion in savings and administrative savings account for $245 million. These are about evenly divided each year. The PPSSCC calculation did not consider the subsequent year savings from reduced disability awards each year. This would add another $3 billion, bringing the total 3-year savings to over $6 billion.

The specific savings estimates were developed separately under each group of recommendations. In summary, PPSSCC has estimated about a quarter of a million less disability recipients per year based on its recommendations. GAO thinks this is highly speculative and has found problems with some of PPSSCC's assumptions and methodology. Therefore, GAO has no basis for agreeing with PPSSCC's savings estimates.

V. RELEVANT GAO REPORTS

Testimony — SSA's Continuing Disability Review Program, by Peter J. McGough, Human Resources Division, before the Subcommittee on Social Security, House Committee on Ways and Means (Jun. 30, 1983)

Testimony — SSA's Review of Mentally Impaired Persons, by Peter J. McGough, Human Resources Division, before the Senate Special Committee on Aging (Apr. 7, 1983)

Testimony — SSA's Continuing Disability Review Program, by Edward Densmore, Human Resources Division, before the Senate Committee on Finance (Aug. 18, 1982)

Testimony — SSA's Continuing Disability Review Program, by Gregory J. Ahart, Human Resources Division, before the Subcommittee on Oversight of Government Management, Senate Committee on Governmental Affairs (May 25, 1982)

VI. GAO CONTACT

Joseph Delfico 275-6193

SSA 6: EARNINGS AND ENFORCEMENT

I. PPSSCC ISSUE AND SAVINGS

"Can the Social Security Administration (SSA) apply its Annual Earnings Test more effectively to reduce erroneous payments and their opportunity costs and accelerate collection of overpayments?"

"Over three years total savings would be $2,977.0 million and interest revenues would be $980.0 million."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC has proposed tightening SSA enforcement of the current-law earnings test provisions so that overpayments are reduced. The earnings test reduces or eliminates Social Security retirement and disability benefits for workers who earn above a specified amount.

The PPSSCC recommends that all retired workers aged 62 to 69 and all disabled workers be notified annually of the earnings test requirement and that they be required to estimate their earnings yearly. In addition, PPSSCC recommends stepped-up enforcement operations in the collection of overpayments, along with the collection of interest on the overpayments. According to PPSSCC, these steps would enable SSA to begin to reduce benefits for excess earnings earlier, accelerate cash flow, and provide interest income to Social Security trust funds.

Concerning the projected savings of nearly $3 billion, GAO believes recent administrative actions taken by SSA as well as ongoing activities essentially comply with the thrust of the PPSSCC recommendations. Consequently, GAO believes the recommendations are moot or would have little further impact if implemented. With respect to interest revenues that could be generated by charging interest on overpayments, SSA has common law authority to charge interest on payments. However, we believe--given the sensitivity of this proposal--the Congress itself should be consulted before proceeding.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC proposals that have not been implemented can be implemented by executive action and are administratively feasible. SSA has not taken a position on the PPSSCC recommendations.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The Congressional Budget Office estimates that no additional savings would result from the PPSSCC proposals. Concerning the revenues which would be generated from charging interest on overpayments, GAO believes some revenue would be realized but is unable to say how much.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

Joseph Delfico 275-6193

SSA 4: MANAGEMENT CONTROL OF WORKFLOW

I. PPSSCC ISSUE AND SAVINGS

"Can the Social Security Administration (SSA) improve the productivity of its operating units by improving first line supervisory control of its workflow.

It appears that in the first year $382.5 million in staff costs could be eliminated if achievable productivity gains were realized. Over 3 years, savings are estimated to be $1,226.0 million."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The need for improved SSA management control of workflow is a valid issue. SSA operates more than 1,300 field offices nationwide and the productivity among the SSA offices and regions varies widely. Further, given the size of SSA's staff and the extensive use of manual processing, opportunity exists to enhance productivity.

The three PPSSCC recommendations to improve management control of workflow are worthy of SSA's consideration. Further, we believe the PPSSCC implementation strategy is a prudent one. The first recommendation--implementing a supervisory production management system--calls for a test phase in 10 field offices. At the completion of the test, SSA should be in a position to make a judgment on the desirability/ feasibility of proceeding with a national system. The implementation of the other two recommendations--(1) implement a system to manage field office productivity and (2) reduce supervisory span of control--is largely dependent on the success (or lack of success) encountered in implementing the first recommendation.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC's three recommendations could be implemented by administrative action. The feasibility as well as the desirability of implementing the recommendations on a national scale however is largely unknown. SSA has not taken a position on the PPSSCC recommendations.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC savings estimate is based on the belief that SSA is functioning at a 50 percent productivity level. This position, however, is not well supported in the report.

The productivity growth envisioned in the PPSSCC estimates is drawn both from its general belief that most workers perform at half their capacity, and from observations by PPSSCC members of highly productive SSA claims processors at selected field offices. PPSSCC findings--that workflow entails too much paperwork and handling--confirm results of a 1980 consultant study prepared for the SSA and based on on-site analysis of work practices. Nonetheless, the PPSSCC conclusion is based on only one type of claim activity (retirement insurance benefits) and on an unspecified sample size and design. As a result, extrapolation of findings across the entire field of SSA operations may lead to overoptimistic expectations about the potential for reducing costs. Using different and more conservative assumptions, the Congressional Budget Office estimates potential savings of $300 million over a five-year period.

V. RELEVANT GAO REPORTS

GAO/GGD-83-69	Selected Government-Wide Management Improvement Efforts--1970 to 1980 (Aug. 8, 1983)
GAO/HRD-82-47	Social Security's Field Office Management Can Be Improved and Millions Can Be Saved Annually Through Increased Productivity (Mar. 9, 1982)

VI. GAO CONTACT

Joseph Delfico 275-6193

SSA 1: EFFECTIVENESS OF THE SYSTEMS MODERNIZATION PLAN

I. PPSSCC ISSUE AND SAVINGS

"Does the Social Security Administration (SSA) have an effective plan for modernizing its automated data processing (ADP) operations? A Systems Modernization Plan (SMP) is now being implemented that will take five years to complete at a cost of $478.6 million."

The PPSSCC did not estimate savings. The successful implementation of the plan is a requirement if the SSA/ADP operation is to avoid further degradation and eventual failure.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO believes SSA's Systems Modernization Program could present a logical systematic approach for solving the agency's pressing software, hardware, data management, data communications, and general ADP management problems, as stated in an earlier report, Examination of the Social Security Administration's System Modernization Plan (GAO/HRD-82-83). There is no question that SSA needs an effective strategic plan to modernize its data processing system. After recognizing the seriousness of its data processing deficiencies, SSA introduced the SMP in February 1982.

GAO generally agrees with 9 of the PPSSCC's 15 recommendations to modernize SSA's ADP operations. These recommendations call for SSA to:

(1) Reschedule the modernization of one of the logical application groups[1] (LAGs) for earlier completion. GAO agrees with the rescheduling but believes that it was unreasonable to have expected SSA to have completed implementing a LAG before the end of the SMP's second year, as the PPSSCC recommended.

(2) Set priorities early for management controls that are to be implemented. GAO agrees that SSA's manual project control system should be improved to include features identified by the PPSSCC.

(3) Change the systems modernization action plan to eliminate the use of 370/168 computers as early as

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[1]LAG is SSA's term for a group of computer programs and files which, together, automate a particular application, such as earnings reporting.

possible. GAO agrees with this concept but notes that such computers have already been replaced with newer technology.

(4) Evaluate new operting systems for controlling the use of SSA's new computers. GAO believes the PPSSCC's suggestion that SSA perform a periodic operating system update, such as implementing every other version or making a once-a-year change, is reasonable.

(5) Select a network architecture that can guide the Social Security Administration Data Acquisition and Response System's future development. GAO believes that selection of a standard network architecture should promote competition in future network procurements and increase the use of off-the-shelf products.

(6) Select a planning methodology, such as Business System Planning, and use it to determine SSA's broad computer systems requirements. GAO agrees that using a structured planning methodology should help SSA to more systematically define its ADP requirements.

(7) Organize a security disaster recovery control group to evaluate and implement new protective procedures for SSA's ADP operations. GAO fully agrees with this recommendation, since long-term interruption of SSA's systems operations would adversely affect the well-being of millions of Americans.

(8) Decentralize the National Computer Center's (NCC's) operations to ensure safety of SSA's records and recovery from a disaster. GAO believes that, given the critical need for processing and data base redundancy, this recommendation is worthy of further consideration.

(9) Develop an agencywide plan that will lay out SSA management's long-term goals and objectives. Since 1974, GAO has issued numerous reports identifying the need for comprehensive agency-wide long-range planning at SSA to serve as the foundation upon which ADP systems planning can be based. On the basis of these reports, GAO strongly agrees with this recommendation.

GAO believes that the remaining recommendations to SSA have little or no merit. These recommendations call for SSA to:

(1) Reduce planned efforts for retrofitting documentation to old programs. Over the years, GAO reviews have repeatedly shown that SSA's documentation deficiencies are a key cause of the agency's systems problems. Reducing or abandoning the effort to document the agency's software directly conflicts with SSA's original SMP document of March 1982, the March 1983 update, and specific direction of the Senate Appropriations Committee to document this software.

(2) Split future releases (updates) of the SMP plan into a strategic plan and tactical or operating plans. GAO believes SSA's current format (including both the strategic and tactical plans in one document) is preferable since it permits SSA and higher monitoring authorities to clearly relate tactical plan implementation to strategic objectives.

(3) Provide emergency power backup for the operation of the elevators in NCC. According to SSA officials, the tape elevators in NCC have always been connected to backup generators, which make up a major portion of NCC's "uninterruptable power supply" system. The elevators are not hooked up to the battery system, which provides power during the several-minute interval required to get the generators started when a power failure occurs. However, loss of elevator service for just several minutes would not appear to present a significant threat to the continuity of operations. Consequently, it is difficult to justify the cost of connecting the elevators to the battery system. GAO, therefore, questions the validity of this recommendation.

GAO has no basis to comment on three PPSSCC recommendations that call for SSA to:

--Reduce the effort planned for converting assembly language programs to COBOL.

--Evaluate and select a new data base management system for use in modernizing SSA's application software.

--Review the SMP from the perspective of user participation to ensure that users' needs are served.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that each of the recommendations can be implemented by SSA without legislative action.

Generally, implementation of the PPSSCC's recommendations is feasible. Several recommendations are now being implemented, including rescheduling one of the LAGs, setting priorities early for management controls, eliminating the use of 370/168 computers, selecting a network architecture to guide future network development, abandoning efforts to develop complete and accurate baseline documentation for existing software systems, and exploring distributed processing options.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC did not compute a savings estimate.

V. RELEVANT GAO REPORTS

GAO/IMTEC-84-15	Social Security Administration's Data Communications Contracts With Paradyne Corporation Demonstrate the Need for Improved Management Controls (July 9, 1984)
GAO/IMTEC-84-23	Additional Information on the Social Security Administration's Management of Data Communications Contracts With Paradyne Corporation (Aug. 27, 1984)
GAO/HRD-82-83	Examination of SSA's Systems Modernization Plan (May 28, 1982)
Testimony	SSA's Data Communications Contracts With the Paradyne Corporation, by Charles A. Bowsher, Comptroller General of the United States, before the Subcommittee on Legislation and National Security, House Committee on Government Operations. Sept. 13, 1984.

VI. GAO CONTACT

Thomas Giammo 275-4659

I. PPSSCC ISSUE AND SAVINGS

Can the Social Security Administration's (SSA's) Office of Systems effectively implement the Systems Modernization Plan (SMP)?

No savings were estimated for this issue. The PPSSCC's recommendations were intended to strengthen and enhance the SMP and were to be considered a part of the overall management process being implemented for data processing.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

In GAO's judgment, the need for SSA's Office of Systems to effectively implement the SMP is a valid issue, particularly since the agency is now into the third year of the $500-million effort. There is no question that a systems implementation effort of this magnitude requires highly skilled general management and technical personnel, knowledge and experience in automated data processing (ADP) procurement practices, and continual monitoring of the program's progress.

GAO generally agrees with 12 of the PPSSCC's 17 recommendations. Those with which GAO agrees include recommendations that SSA:

(1) Develop more realistic schedules for SMP tasks. GAO made a similar recommendation in a previous report (GAO/HRD-82-83).

(2) Request full funding for the SMP on a program basis. GAO agrees with this recommendation, provided that SSA first ensure internal control of long-term projects is maintained.

(3) Set up a program to closely monitor the performance of contractors. GAO strongly agrees with this recommendation on the basis of past GAO recommendations and on recent findings by the Department of Health and Human Services Inspector General's Office, which indicated the failure of several key SMP software contracts.

(4) Initiate an executive residency program. Given SSA's past difficulty in recruiting and retaining highly skilled systems technicians, GAO believes this recommendation is worthy of further consideration.

(5) Develop a plan for the placement of personnel whose jobs will be affected by the modernization of ADP. GAO has no reason to question either the premise upon which this recommendation is based or the validity of its objective.

(6) Develop technical grade and salary scales to reward technical excellence. GAO agrees in principle with this recommendation. The PPSSCC recognizes that inadequate technical salary scales are a governmentwide problem. Its recommendation, however, does not seem to reflect that the solution at SSA may have to be pursued from a governmentwide perspective.

(7) Create an Office of Planning and Technology. The thrust of this recommendation is to combine the areas of strategic planning and technology in a single office. On the basis of past audit work, GAO agrees with this recommendation as far as strategic planning is concerned. GAO has no basis to comment on how SSA can organizationally best address the technology issue.

(8) Place budget responsibility in the recommended Office of Planning and Technology. GAO favors SSA's development and implementation of an integrated planning, budgeting, execution, and feedback process for long-term projects like the SMP.

(9) Place more emphasis on tactical planning. GAO agrees that (1) responsibility for developing short-term, project-oriented work plans should be assigned to the individual operating groups reporting to the Deputy Commissioner for Systems and (2) responsibility for work plan coordination should be handled by the strategic planning staff. On the basis of past audit work in this area, however, GAO believes that the task of implementing the project should not be assigned to those currently responsible for daily systems operations but rather should be a full-time task for the assigned party or parties.

(10) Change the reporting relationship of staff groups. GAO construes this recommendation to mean that offices having SMP responsibility should be elevated to report directly to the Deputy Commissioner for Systems. GAO believes that such an elevation of responsibility would benefit SMP staff offices.

(11) Improve internal communications. GAO agrees that improving internal SSA communications concerning

SMP progress will raise morale within the Office of Systems.

(12) Improve communications with the Congress, the press, and the public. Although GAO believes that the goal of improved external communications by SSA is desirable, it also believes, unlike the PPSSCC, that SSA's status reports should reflect both progress and problems and should not be used as a vehicle for improving SSA's public image, as the PPSSCC implies.

GAO has no basis to comment on the PPSSCC recommendations that SSA:

(1) Initiate a rotational program for personnel in the Office of Programmatic Systems.

(2) Develop a more structured recruiting program.

(3) Create the position of budget analyst.

(4) Expand the technology function.

(5) Create an Office of Network Engineering.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

On 11 of the 12 PPSSCC recommendations upon which GAO can comment, it agrees that SSA has the authority to, and should, implement the proposed action. GAO believes, however, that congressional action may be required to implement the recommended grade and salary scales.

SSA is now well into the third year of its modernization program. Of the 17 recommendations made by the PPSSCC, SSA has acted on 5 (developing more realistic schedules for SMP tasks, setting up a program to monitor the performance of contractors, placing more emphasis on tactical planning, changing reporting relationships of staff groups, and improving internal communications).

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

Because the PPSSCC intended its recommendations to strengthen and enhance the SMP and SSA's data processing management, it did not compute a savings estimate.

V. RELEVANT GAO REPORTS

GAO/IMTEC-84-15 Social Security Administration's Data Communications Contracts With Paradyne

	Corporation Demonstrate the Need for Improved Management Controls (July 9, 1984)
GAO/IMTEC-84-23	Additional Information on the Social Security Administration's Management of Data Communications Contracts With Paradyne Corporation (Aug. 27, 1984)
GAO/HRD-82-83	Examination of SSA's Systems Modernization Plan (May 28, 1982)
Testimony	SSA's Data Communications Contracts With the Paradyne Corporation, by Charles A. Bowsher, Comptroller General of the United States, before the Subcommittee on Legislation and National Security, House Committee on Government Operations. Sept. 13, 1984.

VI. GAO CONTACT

Thomas Giammo 275-4659

I. PPSSCC ISSUE AND SAVINGS

What is the status of work in the Social Security Administration's (SSA's) Data Operations Centers and what can be done to eliminate the backlog of data to be entered? No savings were projected by the PPSSCC. The recommendations in this issue deal with suggestions on how to handle the Annual Wage Reporting process within the context of the Systems Modernization Plan (SMP).

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The income side of SSA's processing is performed in three Data Operations Centers (DOCs). The income data is captured largely from W-2s and similar forms in a process known as Annual Wage Reporting (AWR). Problems in the AWR system have contributed to an increasing backlog of unposted earnings to individual accounts--a backlog which, according to the PPSSCC, had reached $89 billion by 1983. The AWR process is critical to SSA's ability to provide timely information to field offices regarding potential benefit claimants and to perform several earnings comparisons that should be made periodically. SSA's Systems Modernization Program includes a three-phased redesign of the AWR system, an effort which has reached the second phase specifying that a new system be developed and tested.

Although GAO has performed no recent audit work in this area, it generally agrees with the issue raised by the PPSSCC and with three of the four PPSSCC recommendations. Those recommendations with which GAO agrees suggest that SSA:

(1) Redesign the AWR process. GAO audits performed in 1978, 1979, and 1980 identified significant design and operational problems adversely affecting the AWR process. GAO believes, however, that this recommendation may be moot since SSA had already begun redesigning the AWR system before the PPSSCC visited the agency.

(2) Split the suspense account and create an inactive file.[1] GAO believes that splitting the suspense

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[1]The suspense account includes all reported earnings that cannot be posted to individual accounts for reasons such as omitted social security numbers. The proposal is to divide the account into active--for which there is some hope of posting later--and inactive--for which funds must be reserved even though there is no hope of posting accounts.

file in this manner could help identify and reduce the active balance in the backlog.

(3) Contract out part of the AWR process. GAO agrees with the thrust of this recommendation (which is to provide a comparison of in-house and contractor productivity) provided that SSA (a) carefully manages and monitors contractor activities and (b) corrects system design and operational weaknesses (which GAO previously identified in the DOC process) to ensure the accuracy of comparative information resulting from separate in-house and contractor efforts.

Although GAO is doing work in the area of the PPSSCC recommendation that calls for SSA to impose penalties for habitual erroneous wage and deduction reporting, it is not yet in a position to comment on the feasibility of this recommendation.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO found no specific statutory authority in support of the PPSSCC's conclusion that the Commissioner of SSA is authorized to impose penalties for habitual erroneous wage and deduction reporting. However, the Commissioner of the Internal Revenue Service, which administers this reporting with SSA, has such authority. GAO is not yet in a position to comment on the feasibility of this recommendation. GAO agrees with the PPSSCC that existing executive branch authority is adequate to implement the remaining recommendations and that implementing these recommendations is generally feasible. GAO has also recommended that SSA begin to plan for completely redesigning SSA's major ADP systems (including the AWR reporting system) and that SSA supplement existing systems (such as AWR) staff with outside ADP support. The SMP directly addressed the major recommendation made by the PPSSCC in that it identified a three-phased redesign of the AWR system. SSA is now in the second phase. GAO cannot comment on the implementation status of the other three recommendations.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC did not make a savings projection for this issue.

V. RELEVANT GAO REPORTS

GAO/HRD-82-19	Solving Social Security's Computer Problems-Comprehensive Corrective Action Plans and Better Management Needed (Dec. 10, 1981)

VI. GAO CONTACT

Thomas Giammo 275-4659

BANK 11: INCREASE TAXES OR REDUCE BENEFITS TO MAINTAIN RAILROAD RETIREMENT SOLVENCY

I. PPSSCC ISSUE AND SAVINGS

"Should Railroad Retirement Board taxes be increased and/or benefits reduced to shore up the short-term financial condition of the Railroad Retirement System (RRS)?"

The PPSSCC recommended that a 4 percent increase in Tier II (industry pension portion) taxes, equivalent reductions in benefits, or combinations thereof, should be implemented as soon as practical. It also recommended that future increases in railroad retirement benefits should be subject to the Employee Retirement Income Security Act (ERISA) funding standards. The PPSSCC estimated that adoption of this first recommendation would result in an additional $1,442 million in benefit reserves over a 3-year period.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

Over the past decade the railroad retirement program has experienced three financial crises requiring legislative remedy. A legislative response to the last crisis, in 1983, was effected shortly before the PPSSCC report was published. This response, the Railroad Retirement Solvency Act of 1983 (Public Law 98-76), increased Tier II tax rates on employers and employees and reduced retiree benefits. Both the Act and the PPSSCC recommendation to increase taxes and/or reduce benefits, were intended to improve the financial condition of the railroad retirement system. The Act's passage obviates the need for this PPSSCC recommendation.

The rail industry is exempt from ERISA requirements. This exemption has permitted the accumulation of a large unfunded private pension liability, presently estimated at $30 billion. The liability is the net present value of benefits due to vested workers less the assets available to pay them. Unless some form of ERISA type funding standards are adopted, the federal government could be asked to provide financial assistance if the railroad retirement system is unable to pay future Tier II benefits due retirees. GAO believes the recommendation has merit because it would reduce the program's unfunded liability and, thereby, the potential for future federal subsidy. It would also afford vested railroad workers pension protection available in most other industries. However, the pace at which the current liability is funded, and from what sources, will require careful consideration because of its potentially severe effect on the industry.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

Both PPSSCC recommendations are feasible and would require legislative action. As already noted, one recommendation was essentially incorporated in the Railroad Retirement Solvency Act of 1983. Covering future benefit increases under ERISA is a complex proposal. It could prove difficult to implement and administer. Finding the most equitable solution to ERISA concerns is likely to require a great deal more study.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC estimates that adoption of its first recommendation would result in $1,442 million in new revenues being realized over a 3-year period. Although the tax increases adopted in the Railroad Retirement Solvency Act of 1983 were not identical to those proposed by the PPSSCC, the Railroad Retirement Board estimates that the Act will produce $1,531 million in new revenues over a 3-year period. GAO has not made any separate estimates on this issue.

The PPSSCC did not make any estimates regarding its recommendation that future increases in railroad retirement benefits should be subject to ERISA funding standards.

V. RELEVANT GAO REPORTS

Testimony Retirement and Unemployment Insurance Programs of the Railroad Retirement Board, by Peter J. McGough, before the Subcommittee on Social Security and the Subcommittee on Public Assistance and Unemployment Compensation, Committee on Ways and Means, May 3, 1983.

VI. GAO CONTACT

Joseph Delfico 275-6193

BANK 10: PRIVATIZATION OF RAILROAD RETIREMENT

I. PPSSCC ISSUE AND SAVINGS

"Can administrative costs and the possibility of increased federal subsidies to the private elements of the railroad retirement system be reduced by transferring federally funded elements of the current system to their respective primary agencies and turning railroad retirement into a private multi-employer pension plan?"

The PPSSCC stated that such a change would remove a major portion of the system's approximately $30 billion unfunded liability from the federal government, and would significantly reduce administrative costs to the Railroad Retirement Board, Social Security Administration, and Health Care Financing Administration. The PPSSCC estimated that changing the tax free status of the system's industry pension benefits would produce revenues of $331 million over 3 years.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO has not studied these issues and has no position on (1) the PPSSCC recommendation to bring all railroad workers and retirees into the social security system or (2) the recommendations to place the railroad unemployment and sickness program as well as the industry pension portion of the railroad retirement program under a private multi-employer pension plan. GAO notes that these were part of an Administration proposal made in 1982. As for the PPSSCC recommendation to transfer the administration of the unemployment and sickness insurance program to a private multi-employer pension plan, several bills related to this issue are likely to be introduced for consideration by the Congress in 1985.

Other related PPSSCC recommendations would provide financial security for the private pension fund and unemployment and sickness insurance program by enacting a payroll tax on railroads to fund collectively bargained benefit increases. Because these components of the railroad retirement program are normally financed in other industries by private contributions, GAO believes the financial security of these funds should be improved without the use of federal subsidies. However, the Railroad Retirement Board has questioned the rail industry's ability to economically support the level of taxes that the PPSSCC recommendation would necessitate. GAO has no position on this recommendation.

The PPSSCC also recommended taxing the industry pension portion of railroad retirement benefits. GAO supported this approach in testimony on May 3, 1983, before the House Ways and Means Subcommitee on Social Security and Subcommitee on Public Assistance and Unemployment Compensation.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

These PPSSCC recommendations are feasible but would require legislative action by the Congress. The Railroad Retirement Solvency Act of 1983 (Public Law 98-76) enacted the PPSSCC recommendation to tax industry pension benefits. Several bills are likely to be introduced for consideration by the Congress in 1985 dealing with the possible transfer of the Board's unemployment and sickness insurance program to the federal/state unemployment insurance system or the enactment of tax and benefit reforms if the program continues to be administered by the Board.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC estimate that implementing its recommendations would remove a major portion of the system's $30 billion unfunded liability from the federal government needs clarification. The federal government has no legal obligation to pay benefits affected by the unfunded liability if the railroad retirement program defaulted. The PPSSCC's recommendation would reduce the program's unfunded liability. It would reduce the cost to the federal government only if the railroad retirement program was unable to pay benefits and the federal government assumed responsibility.

The Railroad Retirement Board does not believe that administrative cost savings would result by implementing the PPSSCC recommendations. An ongoing GAO study indicates that some administrative costs could be eliminated by de-federalizing the railroad retirement program along the lines suggested by the PPSSCC. GAO however, has not estimated what savings would occur.

The additional revenues from taxing industry pension benefits as projected by the PPSSCC are realistic although possibly understated. PPSSCC estimated that $331 million in new tax revenues would be realized in 3 years if the industry pension benefits were taxed. The Railroad Retirement Board estimated that $738 million will be realized in revenue enhancements over a 3 year period because a similar provision was included in the Railroad Retirement Solvency Act of 1983. GAO did not make any cost estimates regarding this proposal.

V. RELEVANT GAO REPORTS

Testimony — Retirement and Unemployment Insurance Programs of the Railroad Retirement Board, by Peter J. McGough, before the Subcommittee on Social Security and the Subcommittee on Public Assistance and Unemployment Compensation, Committee on Ways and Means, May 3, 1983.

VI. GAO CONTACT

Joseph Delfico 275-6193

BANK 12: MOVE THE SOCIAL SECURITY EQUIVALENT OF RAILROAD RETIREMENT TO SSA

I. PPSSCC ISSUE AND SAVINGS

"Should the portion of the Railroad Retirement System (RRS) which is equivalent to Social Security retirement benefits be moved to the Social Security Administration (SSA)?"

Related to this issue was the PPSSCC's recommendation that the Congress should no longer provide general revenue funding for windfall benefits. The PPSSCC added that appropriations should, however, be made to ensure that those affected by any cuts do not fall below an adequate benefit level. The PPSSCC estimated 3-year savings of $1,236 million in general revenue funds if federal windfall payments were discontinued.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

Bringing the social security portion of the railroad retirement program under Social Security highlights the issue of whether persons eligible for benefits under both systems should continue receiving a larger benefit than they would have received if covered by only one program. Windfall benefits have been funded from general revenue since 1975.

In the past, the Congress has considered various alternative sources of windfall financing--including increasing the taxes of rail industry employees and employers and requiring Social Security to fund windfall benefits. The Congress rejected increasing railroad employees' taxes because it believed it unfair to require current workers to finance a benefit they would not receive. Congress was also concerned the resulting increased freight rates would have an adverse impact on inflation and the railroads' financial stability. The Congress also rejected the proposal that the Social Security trust funds should finance windfall benefits and instead appropriated general revenue funds for this purpose.

GAO does not have a position on how windfall benefits should be funded. In 1981 and 1982 reports to the Congress, GAO pointed out that the overwhelming portion of windfall benefits went to families in upper benefit ranges and conditions in the rail industry had changed since Congress considered and rejected alternative funding sources. GAO presented several alternatives and recommended that Congress reevaluate how to finance windfall benefits.

In contrast to the PPSSCC's recommendation, the Railroad Retirement Solvency Act of 1983 (Public Law 98-76) provided an additional $2 billion to the railroad retirement system to cover past differences between windfall benefit appropriations and the windfall benefit paid by the Railroad Retirement Board.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The recommendation is feasible but would require legislative action. GAO is not aware of any plans by the Congress to act on this proposal. Congressional decisions on windfall funding were made in 1983. These make it highly unlikely that the PPSSCC's recommendation will receive favorable consideration in the near future.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC estimated that adoption of this recommendation would result in savings of $1,236 million over a 3-year period. The savings estimate is realistic. Windfall budget authority was $430 million in fiscal year 1983 and was estimated at $420 million for fiscal year 1984 and $405 million for fiscal year 1985. This amounts to $1,255 million--almost identical to the PPSSCC's estimate of $1,236 million. Actual savings would be offset by the amount of additional appropriations provided to ensure that those affected by any cuts do not fall below an adequate benefit level.

V. RELEVANT GAO REPORTS

GAO/HRD 82-97 Relationship of Dual Benefit Windfall Payments to Total Railroad Retirement Benefits (July 12, 1982)

GAO/HRD 81-27 Keeping the Railroad Retirement Program on Track--Government and Railroads Should Clarify Roles and Responsibilities (Mar. 9, 1981)

VI. GAO CONTACT

Joseph Delfico 275-6193

BANK 18: REMOVE SSA FUNDED DISABILITY PROGRAM FROM THE RAILROAD RETIREMENT BOARD

I. PPSSCC ISSUE AND SAVINGS

"Should the portion of the Railroad Retirement Board (RRB) disability program funded by Social Security be turned over to the Social Security Administration (SSA)?"

The PPSSCC recommended that the Administration request the Congress to place all railroad workers directly in the social security disability insurance program, removing the Board's authority to make any disability decisions which would be funded by Social Security. It said that the railroads' remaining disability program should supplement Social Security's to the extent railroad labor and management agree in collective bargaining to fund their programs. The PPSSCC said specific savings to be realized would depend on the extent to which incorrect benefit decisions would be avoided and could save Social Security "tens of millions of dollars" annually.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

A primary basis for the recommendation is the belief that the Board makes incorrect disability determinations that might more correctly be made by Social Security. A GAO sample of 1981 Board disability determinations found that 21 percent were in error or were made without obtaining adequate evidence of the disability. The Board has since acted to improve its determinations to ensure they are in accord with Social Security requirements. This recommendation is related to the larger issue of turning all Board social security equivalent components over to Social Security, an issue on which GAO has not taken a position.

If the Congress decides to place the social security component of the railroad retirement program under the Social Security Administration, then transferring that portion of the Board's disability program which is subject to social security criteria would be a logical extension.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

This recommendation would require legislative action. No legislative proposals calling for such a transfer have been introduced to date.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

PPSSCC made no savings estimate for this issue.

V. RELEVANT GAO REPORTS

GAO/HRD 84-11 Railroad Retirement Board Disability Determinations (July 20, 1984)

VI. GAO CONTACT

Joseph Delfico 275-6193

BANK 15: FIELD SERVICE ALTERNATIVES

I. PPSSCC ISSUE AND SAVINGS

"How can the functions presently performed by the Railroad Retirement Board's (RRB) field offices be performed more efficiently?"

Upon implementation of other PPSSCC recommendations, the PPSSCC recommends that the Railroad Retirement Board eliminate its field offices and centralize all remaining functions. The PPSSCC estimates this would save $26 million over a 3-year period.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO has not taken a position on whether all social security functions of the Board should be turned over to Social Security. If the social security component of the railroad retirement program were turned over to Social Security and the industry pension portion of the railroad retirement program were to be turned into a private multi-employer pension plan as recommended by the PPSSCC in Issue Bank 10, the elimination of the Board's field structure would be a natural extension because the Social Security field offices could serve beneficiaries.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

If the Congress decides to take steps toward privatization such as merging the social security component with Social Security and establishing a multi-employer private pension organization, the elimination of the Board's field structure would make sense. Eliminating the field structure could be accomplished administratively by the Board but privatizing the program would require legislative action. No legislative proposals have been introduced.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC estimated that eliminating the Board's field structure would result in over $26 million in savings over a 3-year period. GAO has not estimated the savings from the PPSSCC's proposal and has no basis to assess the validity of that estimate.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

Joseph Delfico 275-6193

BANK 5: RISK-RELATED PREMIUM

I. PPSSCC ISSUE AND SAVINGS

"Should the insurance premium charged by the Pension Benefit Guaranty Corporation (PBGC) be risk-related?"

Revenue from special assessments charged to sponsors who underfund pension plans was estimated at about $3.2 billion over three years.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO agrees that a risk-related premium could contribute to an improved method for financing the insurance program. Under the present system, all plans pay the same rate regardless of their funding level or the risk of claim against the program. As the rate increases, this approach becomes increasingly more inequitable for well-funded, low-risk plans.

However, GAO believes that the 5 percent assessment on unfunded liability recommended by PPSSCC could result in a substantial burden on financially weak sponsors; new plans, for example, commonly start with large unfunded liabilities. Furthermore, if the assessments had to be paid out of the funds' resources, such special assessments could reduce benefit increases for participants in defined benefit plans. GAO thus believes the need for such an assessment requires further study. Moreover, the 5 percent assessment would exceed PBGC's funding requirements over the next three years. If a special assessment is established, it should be at a rate more closely aligned to the program's requirements.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

Congressional action would be needed to implement a risk-related premium as recommended by the PPSSCC. PBGC contracted for a study of various alternatives for a risk-related premium and is presently reviewing the results of the contractor's report.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO is concerned about the reliability of PPSSCC's $3.2 billion estimate based on major uncertainties associated with key elements used in its computation. For example, the 5 percent assessment rate is not related to the insurance program's risk of exposure or its estimated

costs. Further, PPSSCC's estimate was based on the assumption that assessments could be made against 700 publicly-held companies with unfunded pension liabilities of $19.3 billion. PPSSCC used data on unfunded liabilities for 1980. GAO believes that these liabilities may be overstated because interest rate assumptions used to value liabilities for many plans may have increased since 1980. Unfunded liabilities are extremely sensitive to increases in the interest rate and a small increase could result in a large decrease in the total unfunded liabilities.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

Joseph Delfico 275-6193

BANK 1: SINGLE EMPLOYER PLAN PREMIUM INCREASE

I. PPSSCC ISSUE AND SAVINGS

"Should the annual single-employer insurance premium be increased from its current $2.60 per participant to $6.00 as proposed by the Pension Benefit Guaranty Corporation (PBGC)?"

Revenues from the premium increase are estimated at $324.1 million over a three-year period.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO agrees that the premium rate should be increased so that PBGC's present deficit of about $500 million can be reduced. By contrast, the deficit was estimated at $236 million when PPSSCC made its recommendation. GAO believes that the program should be operated on a full-funding basis and, as such, the premium rate should be sufficient to cover the annual insurance claims, administrative costs and retire the existing deficit. At the time of PPSSCC's recommendation, PBGC had requested an increase from $2.60 to $6.00 that was expected to retire the program's deficit in 5 years. Subsequently, insurance claims increased significantly and PBGC raised its request to $7.00 to be effective January 1, 1984. The program's deficit, which increased from an estimated $236 million to $462 million as of January 1, 1984, was expected to be retired over 15 years if the $7.00 rate was approved. Based on an assessment of PBGC's methodology, GAO believed that an increase of not less than $7.00 was needed and that an $8.50 rate would be needed to retire the higher deficit in 5 years as PBGC initially planned.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

Congressional action is required to increase the premium rate. On May 5, 1983, S. 1227, was introduced to increase the premium rate to $6.00. During 1984, the proposed rate was raised to $7.00. On March 15, 1984, H.R. 5143 was introduced. During consideration by the House Committee on Education and Labor, a provision was added to H.R. 5143 to increase the premium rate to $8.50 as suggested in GAO's testimony on March 20, 1984. These bills were not passed before the Congressional session ended in October 1984.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

PPSSCC's revenue estimate for an increase in the rate from $2.60 to $6.00 is reasonable. According to PBGC's 1982 premium rate request, the number of participants in covered plans should average about 32 million over the next 4 years. Thus, a $6.00 rate could generate $192 million annually compared to $83.2 million for the present $2.60 rate, a difference of $108.8 million annually or $326.4 million over a three-year period. By contrast, an $8.50 and $7.00 rate would result in revenue increases of $566.4 and $422.4 million respectively over a three-year period.

V. RELEVANT GAO REPORTS

GAO/HRD-84-5	Legislative Changes Needed To Financially Strengthen Single Employer Pension Plan Insurance Program (Nov. 14, 1983)
Testimony	Premium Requirements of the Single Employer Pension Plan Insurance Program, by Franklin A. Curtis, Human Resources Division, before the Subcommittee on Oversight, House Committee on Ways and Means. (Mar. 20, 1984)

VI. GAO CONTACT

Joseph Delfico 275-6193

BANK 3: CASH FLOW

I. PPSSCC ISSUE AND SAVINGS

"Can the collection of insurance premiums be accelerated to improve the cash flow and related investment return of the Pension Benefit Guaranty Corporation's (PBGC) revolving fund?"

Savings are estimated at $54.1 million for reduced interest costs resulting from accelerated cash collections of $262 million over three years.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

PPSSCC recommended a 5-month acceleration in the premium collection schedule. GAO believes that such an acceleration should only be implemented to (1) solve a cash flow problem or (2) save money for premium payers. GAO does not agree with PPSSCC's recommendation because PBGC does not have a cash flow problem. PBGC estimates annual cash expenditures of about $200 million in 1984 compared to estimated current assets of about $1 billion. Furthermore, GAO believes that significant savings will not accrue to premium payers and many may incur increased opportunity costs such as a result of foregone investment earnings. Also, a change in the collection schedule could result in problems and additional expenses relating to preparing and processing premium payments. Because data on participants may not be complete, plans may have to file estimated payments to comply with the accelerated schedule and then submit a final filing after complete information is available.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

PBGC has the authority to change the premium collection schedule without congressional approval. PBGC is considering a change in the collection schedule in response to PPSSCC's recommendation.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

PPSSCC's $54.1 million estimated savings is not realistic because investment earnings are significantly overstated. PPSSCC estimated that premium revenue would be $79 million in year 1, $87 million in year 2 and $96 million in year 3. Assuming a 10 percent rate of return, PPSSCC calculated that accelerated collection of this revenue would increase annual investment earnings by $7.9

million, $17.4 million, and $28.8 million over three years. PPSSCC's estimates incorrectly assumed that the increased investment earnings for each year's accelerated collection would recur in the same magnitude in subsequent years. However, the increased investment earnings from accelerated collection is a one-time occurrence in each year which should be computed for only a 5-month period. As a result, GAO estimates that the additional interest earnings to PBGC should be about $20.1 rather than $54.1 million.

Although PBGC's higher earnings could result in lower premiums in future years, GAO believes that premium payers, if given the choice, may prefer to use the funds for an additional 5 months. While the overall effect of an accelerated premium would be minimal for those premium payers who have an earnings rate lower than PBGC's return and payers who earn at a rate equal to PBGC, premium payers who have an earnings rate higher than PBGC's return (estimated by PPSSCC as 10 percent) could lose money if the premium collection schedule was accelerated.

V. RELEVANT GAO REPORTS

GAO/HRD-82-12 Better Management of Private Pension Plan Data Can Reduce Costs and Improve ERISA Administration (Oct. 19, 1981)

VI. GAO CONTACT

Joseph Delfico 275-6193

BANK 4: INDUSTRY SERVICES

I. PPSSCC ISSUE AND SAVINGS

"Should the Pension Benefit Guaranty Corporation (PBGC) utilize existing services available from industry to improve its efficiency and reduce the aggregate level of premiums paid by the pension industry?"

Cost savings from increased efficiency through use of existing private sector services were estimated at $132.4 million over a three-year period.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

PPSSCC recommended that PBGC evaluate the utilization of private insurance and related industries for such required services as pension check disbursement and plan administration. GAO agrees that PBGC should explore whether increased use of private sector services can reduce premiums needed to pay administrative costs and claims. In this regard, the program should not compete with the private insurance industry unless there is a cost advantage to premium payers.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

PBGC has the authority to contract with the private sector to perform services. However, GAO believes that the ability to use private insurers depends on the insurance industry capacity and willingness to provide, at a lower cost, many of the services presently done by PBGC. Also, the volume of total claims and the low level of program assets relative to its liabilities could limit the level of private insurance services until additional resources become available. Nonetheless, PBGC is evaluating the feasibility of alternatives for reducing its role in providing insurance services available from private industry.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

While GAO agrees with PPSSCC that a thorough savings and impact analysis cannot be determined at this time, GAO is concerned that PPSSCC's estimated budget reduction could be significantly overstated. To achieve PPSSCC's estimated savings of $132.4 million over a three-year period, PBGC would have to purchase annuities from private insurance companies for its entire inventory of terminated pension plans. However, PBGC does not have enough money

to do this because the program has a deficit of about $462 million which would not be retired even if PBGC received the requested $7.00 premium rate.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

Joseph Delfico 275-6193

BANK 2: AMEND TITLE IV OF ERISA

I. PPSSCC ISSUE AND SAVINGS

"Should Title IV of the Employee Retirement Income Security Act (ERISA) be amended to close existing loopholes which have resulted in 'abusive' claims and the opportunity for 'adverse' selection?"

Cost savings from amending ERISA were estimated at $30.1 million over three years.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

Under ERISA, plan sponsors can avoid liability for unfunded benefits by (1) voluntarily terminating their plan(s) when net worth is low (in relation to unfunded benefits) or (2) transferring the plan to another company whose net worth is low. Liability can be avoided in these situations because the insurance program can collect unfunded benefits only from the company sponsoring the plan at its termination and the collection is limited to 30 percent of the company's net worth.

GAO agrees that ERISA should be amended to minimize abusive claims and remove the opportunity and incentive for ongoing employers to avoid substantial unfunded pension liability by terminating a plan and transferring liabilities to the insurance program (adverse selection). A GAO report (GAO/HRD-84-5) documented that the insurance program incurred large claims when (1) ongoing sponsors voluntarily terminated their plans and (2) unfunded liabilities could not be recovered from original sponsors for plans that terminated shortly after being transferred to another employer. According to the report, these situations accounted for about $70 million in claims against the insurance program during its first seven years of operation.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

Congressional action is needed to prevent abusive claims and the opportunity for adverse selection. S. 1227 and H.R. 3930 were introduced in 1983 to prevent potential abuses of the insurance program and improve the program's design. The bills were not passed before the Congress went out of session in October 1984.

There is a consensus among PBGC, the Department of Labor and the pension community that the program's design should be modified to prevent potential abusive claims.

However, agreement has not been reached on specific modifications which can be enacted into law.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO agrees with PPSSCC that a thorough savings and impact analysis would be difficult to perform. However, PBGC records confirm that about $70 million in abusive claims were incurred during the program's first seven years, an average of about $10 million a year. Therefore, GAO believes that the estimated savings of $30 million over three years could be realized if a similar level of claims ($10 million a year) were averted through PPSSCC's recommended changes.

V. RELEVANT GAO REPORTS

GAO/HRD-84-5	Legislative Changes Needed to Financially Strengthen Single Employer Pension Plan Insurance Program (Nov. 14, 1983)
B-211961	Letter Report to the Chairman of the Senate Labor Subcommittee on S. 1227 (June 13, 1983)

VI. GAO CONTACT

Joseph Delfico 275-6193

VETS 2: ERROR PREVENTION

I. PPSSCC ISSUE AND SAVINGS

Can the Veterans Administration (VA) reduce error rates in its benefits payments through improved procedures and systems?

There were three recommendations under this issue. Cost savings from the prevention, detection and collection of benefit overpayments through (1) a detailed study of errors, (2) increased computer matching, and (3) improved quality control, is estimated at about $1.5 billion over three years.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO agrees with the PPSSCC that causes of errors in benefit payments need to be studied and that more computer matching would be beneficial in detecting erroneous payments. Both GAO and VA's Inspector General have, through computer matches, detected improper benefit payments and GAO has recommended improvements in payment controls. GAO is not certain, however, that an error study of the size proposed by the PPSSCC ($3-5 million) would be cost beneficial. Computer matching projects should be undertaken only after full consideration of the costs and benefits to be derived. Before undertaking computer matching projects, agencies should assess the projects' potential impact on beneficiaries' voluntary compliance with information reporting requirements, ensure that the projects include adequate safeguards to protect the confidentiality of the information exchanged, and ensure that individuals' due process rights are observed before benefit payments are reduced or eliminated.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC believes the recommendations can be implemented by the VA, and GAO basically agrees. However, computer matching of tax return infomation, which PPSSCC did not specifically recommend, would require legislative authority.

VA does perform some computer matches to verify benefit payment accuracy and has conducted reviews of internal controls in the education and pension benefits programs. VA performs routine computer data exchanges with the Social Security Administration (SSA) to verify income from Old Age, Survivors and Disability Insurance benefits for pension benefit computations. VA recently began a similar match with Office of Personnel Management records to verify civil service annuity income and is in

the process of arranging for additional matches to verify railroad retirement and Black Lung benefits. Since VA's Inspector General has initiated matching with state unemployment insurance files on an audit basis, VA's Compensation and Pension Service has not studied the feasibility of undertaking this effort on a recurring basis.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO believes the savings estimates are too high. The PPSSCC assumed that a doubling in detected errors would result in doubling in accounts receivable, and hence collections. Doubling detected errors may be feasible; however, many accounts receivable do not result from errors but rather benficiaries' failure to promptly and accurately report changes in data affecting benefit entitlement. An increase in detected errors would not result in a proportionate increase in accounts receivable.

V. RELEVANT GAO REPORTS

GAO/HRD-84-13	Dual Compensation Is Paid When Military Reservists Do Not Waive VA Disability Benefits (Nov. 18, 1983)
GAO/HRD-82-9	Legislative and Administrative Changes To Improve Verification Of Welfare Recipients' Income and Assets Could Save Hundreds of Millions (Jan. 14, 1982)
GAO/HRD-81-154	Overpayments Of Education Benefits Could Be Reduced For Veterans Enrolled In Noncollege Degree Courses (Sep. 30, 1981)

VI. GAO CONTACT

Joseph Delfico 275-6193

VETS 1: CLAIMS PROCESSING

I. PPSSCC ISSUE AND SAVINGS

Can processing veterans' benefit claims be made more efficient and field station productivity improved through better utilization of personnel resources and strengthened management practices?

There were three recommendations under this issue. Cost savings from (1) improving the accuracy of the work measurement system, (2) using the revised system to manage field station operations, and (3) implementing a performance appraisal system based on work measurement standards is estimated at $272 million over three years.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO agrees with the basic issue raised by PPSSCC that productivity needs improvement. GAO, has no basis for judging whether or not the work measurement system needs to be revised, but notes that VA has begun a review of that system, a response with which GAO would agree.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

PPSSCC believes the recommendations can be implemented by the VA, and GAO agrees. In response to the recommendations, VA has awarded a contract to Arthur Young and Co. to conduct a thorough and objective evaluation of the Division of Veterans' Benefits' work measurement system to determine its utility and effectiveness to:

--accurately measure the effectiveness of the operations of DVB's field station activities;

--provide a methodology to determine and allocate staffing resources; and

--provide measures to assess performance.

The contract was effective August 1, 1984, and planned completion date is February 1, 1985.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO has no basis for assessing the savings estimate.

V. RELEVANT GAO REPORTS

GAO/AFMD-83-12 Improved Productivity Can Reduce the Cost of Administering Veterans Benefit Programs (Dec. 22, 1982)

GAO/HRD-82-45	The Veterans Administration's Denver Regional Office Needs an Improved Claims Processing Monitoring System to Speed Up Service to Veterans (Mar. 15, 1982)

VI. GAO CONTACT

Joseph Delfico 275-6193

ADP 15: AUTOMATION OF CLAIMS AND BENEFIT DELIVERY SYSTEMS

I. PPSSCC ISSUE AND SAVINGS

"Is there cost savings potential in improving automation of claims and benefit delivery systems?

"Based on documented experiences, significant cost avoidance, primarily through personnel reductions, can be realized within five years." The PPSSCC stated that such savings are difficult to project; therefore, the savings have not been specifically quantified.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC recommended that the proposed Office of Federal Management's central agency Federal Information Resource Manager identify, as a key priority area for automation, the upgrading of all major government systems that support claims, benefits, or compensation processes. It also recommended that the cognizant agency Information Resource Managers review all claims, benefits, compensation, and other related processing activities.

GAO has performed audit work in the areas of claims, benefits, and compensation processes at the Veterans Administration, the Social Security Administration, and the Department of Labor. On the basis of this work, GAO believes the PPSSCC issue and related recommendations for increasing the use of automation in support of claims and benefit delivery systems have merit. GAO also believes that greater use of automation can improve the delivery of services to the public.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

While the first recommendation refers to a Special Assistant to the President for Federal Information Resources Management, a position which does not now exist, it would be feasible for the Administrator of the Office of Information and Regulatory Affairs, Office of Management and Budget (OMB), to carry out the recommendation as part of his responsibilities under the authority of the Paperwork Reduction Act of 1980 (Public Law 96-511). Also, information resources managers for those agencies having claims, benefits, or compensation programs can implement the second recommendation under their existing authority. Furthermore, GAO believes that the reviews called for in the second recommendation are already mandated by the Paperwork Reduction Act and OMB Bulletin 81-21, which require that agencies periodically evaluate their information activities.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC did not develop a savings estimate.

V. RELEVANT GAO REPORTS

GAO/HRD-82-19	Solving Social Security's Computer Problems: Comprehensive and Corrective Action Plan and Better Management Needed (Dec. 10, 1981)
GAO/HRD-83-46	Labor Inaccurately Paid Black Lung Benefits--Some Corrective Actions Taken But More Needed (May 13, 1983)

VI. GAO CONTACT

Thomas Giammo 275-4659

SUBS 1: THE MANAGEMENT OF FEDERAL SUBSIDIES

I. PPSSCC ISSUE AND SAVINGS

A useful way of viewing Federal expenditures is to distinguish between outlays that are clearly made for the traditional functions of Government (such as those for national defense, interest on the public debt, and such general Government functions as the administration of justice, legislative and executive activities, and fiscal management) and those nontraditional outlays which are targeted to specific classes of individuals, businesses or institutions. From 1962-1982, nontraditional outlays grew at an average annual rate of 5.9 percent in constant dollars, or 2.5 times as fast as the 2.4 percent growth rate for traditional expenditures. In current dollars, nontraditional outlays went from $50.4 billion or 47.2 percent of all outlays in 1962 to $461.8 billion or 63.4 percent in 1982 and were a driving force in the rapid growth of Federal spending.

PPSSCC studied four areas of nontraditional spending on subsidies and formulated four recommendations which, when fully implemented, will result in three-year cost savings of $58.9 billion.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC issue covers the following four subsidy areas: means-tested programs, subsidies for the elderly, farm subsidies and user charges. Its recommendations: (1) each federal agency issue a W-2 type form to each subsidy beneficiary showing the amount of the subsidy provided, with a copy of the form going to IRS; (2) the concept of consolidating benefit programs be pursued; (3) federal agency accounting systems be improved to provide accurate data on subsidy program administrative costs; and (4) poverty statistics be redefined to include in-kind benefits--are generally aimed at all four subsidy areas. Its savings estimate is calculated on means-tested programs only.

GAO believes that the thrust of the PPSSCC issue, the need to deal with burgeoning federal benefit payments and program proliferation, has merit and is generally consistent with prior GAO findings and recommendations. GAO has supported the consolidation of many of the federally subsidized programs when savings could be achieved and the level of benefits Congress has decided to provide in these programs could be maintained. In a February 1980 report GAO noted that the costs of income security programs had soared by 250 percent over the past 10 years making them the largest part of the federal

budget. These programs had also been under constant criticism for being too profuse, inequitable, inefficient, difficult to manage, and for discouraging individuals from working. GAO recommended the establishment of an independent national body to bring changes in policymaking, management and evaluation of the income security system. GAO's June 1978 report identified overlaps in food assistance programs and recommended consolidation of certain federal food programs.

GAO feels that issuing the W-2 type subsidy form for the purpose of taxing benefits may be feasible administratively but it leads to cutting benefits before determining potential impacts on the needy. GAO feels this recommendation has no merit until the potential impacts have been fully assessed.

The other recommendations have merit but could be difficult to implement. However, while most of the recommendations have merit, GAO does not agree with the overall thrust of the issue.

The PPSSCC believes that retargeting of means-tested programs is needed because, in its view, a wide range of means-tested programs have failed to reduce the poverty gap.

PPSSCC stated that means-tested programs, which totaled $124 billion in expenditures in 1982, failed to reduce the poverty gap because they served individuals above the poverty thresholds. Because they consider this to be poor targeting, PPSSCC recommends cuts of $58.9 billion over a 3-year period. Included in this grouping of programs are: Medicaid, Aid to Families with Dependent Children (AFDC), Food Stamps, Child Nutrition, Food Donations, Housing Assistance, Supplemental Security Income, Low-Income Home Energy Assistance, Guaranteed Student Loans and Pell Grants, Protective Services for Children and Adults, Community Care for Elderly and Disabled, Pensions for Low-Income and Disabled Veterans who served during the war, and Indian and refugee health services.

However, when these programs were established, generally with the exception of Food Stamps, Congress did not directly relate benefit amounts or eligibility limits for each program to poverty thresholds. The largest of these programs is Medicaid (with federal and state expenditures of $32.5 billion in 1982) and it does not provide cash to recipients. Persons qualify for Medicaid by not having enough income or resources to pay for medical health services. Medicaid funds go to providers

of care because only health services are paid for. The expenditure of Medicaid funds would not reduce the number below the poverty level or the poverty gap because it is only meeting an unmet health need.

Many of these programs (AFDC, SSI, Veterans pensions) are intended to serve individuals who are unable to work (e.g. the aged, disabled, children). At the same time, individuals who do not fit in these categories, even if they are poor and would be considered in poverty, do not receive such benefits.

Other programs, such as Pell Grants, were enacted to provide low-income persons with the opportunity to escape poverty through education. Education costs are not used to compute the poverty level so programs, like Pell Grants, could not reduce the "poverty gap". It is not surprising, therefore, that these combined program expenditures do not totally eliminate the poverty gap (however defined) since the programs were not set up by Congress to accomplish this.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC explained that the purpose of accumulating total federal subsidy amounts by beneficiary (through the use of a "W-2" type form provided to IRS) was, in effect, to tax all benefits which, when added to income, exceeded an established cut-off point. Congressional action would be needed to provide such broad-based taxing authority. The other three recommendations for (1) improving agency accounting systems, (2) improving the definition of poverty statistics and (3) pursuing consolidation of benefit programs are feasible to implement but on the latter two, there is no general consensus as to how to accomplish them. The PPSSCC did not present a plan for how either recommendation could be implemented.

None of these recommendations has been introduced to the Congress as proposed legislation as far as GAO is aware.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC savings estimate is based on the assumption that there is a $50.1 billion poverty gap (before means-tested transfer payments) and that this gap was reduced by only $37.4 billion after expenditures of

$124 billion on means-tested programs for the poor. It is PPSSCC's assessment that this occurs because benefits are going to individuals whose incomes are above the poverty line. PPSSCC theorizes that the $124 billion should not only have brought all households out of poverty, but should have been sufficient to bring all households to 125 percent of the poverty level with $47.5 billion left over. Of the $47.5 billion, they estimate that 75 percent ($35.7 billion) represents federal funds. They also estimate the federal government could reduce these costs by half over three years or by $58.9 billion ($17.8 billion in Year 1, $19.6 billion in Year 2, and $21.5 billion in Year 3 (assuming 10 percent inflation).

PPSSCC's "savings" estimate of $58.9 billion would not be achieved by implementing its specific recommendations or by improving efficiency in the operation of means-tested programs. Instead, it is based on making major program changes, including revising program objectives and changing who is served in each program. This would be in conflict with the legislation which established each of these programs.

PPSSCC acknowledged that to achieve savings of $58.9 billion over a three-year period would require major refocusing of these means-tested programs so that "all funds are geared to the truly needy at the low end of the income spectrum rather than those lower-budget, lower-middle income and middle-income households which now also receive means-tested benefits." This, therefore, represents not a savings in current programs but is instead a view that the Congress should make major programmatic changes.

V. RELEVANT GAO REPORTS

GAO/HRD-80-33	U.S. Income Security System Needs Leadership, Policy and Effective Management (Feb. 29, 1980)
GAO/CED-78-113	Federal Domestic Food Assistance Programs--A Time for Assessment and Change (June 11, 1978)

VI. GAO CONTACT

Joseph Delfico 275-6193

AG 14: ELIMINATE OVERLAP IN CHILD NUTRITION BENEFIT

I. PPSSCC ISSUE AND SAVINGS

According to the PPSSCC,

"Overlapping Child Nutrition entitlements could be added to income calculations in determining Food Stamp Program eligibility and entitlement values. Eliminating this duplication of nutritional assistance will save * * * [$536.2 million over 3 years] in the School Breakfast, Child Care Food, and the Summer Food Service Programs."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATION

GAO believes that this proposal, which is conceptually similar to the PPSSCC's recommendation to eliminate the overlap between school lunch and food stamp benefits, also has merit. However, it should be recognized that adding the value of meals received under these programs to the participant household's unearned income would not eliminate, but would reduce, the overlapping benefits. (See GAO's comments on AG 13.)

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

As GAO noted in its comments on AG 13, food stamp legislation would have to be amended to allow counting non-cash food assistance benefits as income when determining Food Stamp Program eligibility and benefit levels. Also, the U.S. Department of Agriculture (USDA) could encounter some difficulty in implementing this PPSSCC proposal. First, there are no detailed participation records for the Summer Food Service Program. Second, because child care centers and homes may provide up to two meals and one snack per day, the PPSSCC proposal would require each provider to maintain records on which combination of meals and snacks are given to each child. Such records would be needed to accurately determine which children simultaneously participated, and to what extent, in one or more of these programs and the Food Stamp Program. Because of these limitations, GAO believes that, as recommended in its 1978 report (GAO/CED-78-113, 6/13/78), USDA should study the feasibility of considering benefits from child nutrition programs when determining Food Stamp Program eligibility or benefits. GAO also recommended that if USDA's study shows the change to be feasible, the Congress should eliminate the overlap in benefits. According to USDA's implementation status report dated October 3, 1984, the PPSSCC's recommendation was being reviewed for further consideration.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO has not analyzed the PPSSCC savings estimate because USDA does not have readily available information on the extent of benefits received by particular households from such child nutrition programs as the Summer Food Service and Child Care Food Programs. This information is needed to determine the extent to which child nutrition program coverage overlaps with that of the Food Stamp Program.

V. RELEVANT GAO REPORTS

Testimony	GAO Reviews of the Food Stamp Program, by Henry Eschwege, Director, Community and Economic Development Division, before the Senate Committee on Agriculture, Nutrition, and Forestry (Apr. 2, 1981)
Testimony	GAO Reviews of the Food Stamp Program, by Brian P. Crowley, Community and Economic Development Division, before the Subcommittee on Domestic Marketing, Consumer Relations, and Nutrition, House Committee on Agriculture (Mar. 19, 1981)
GAO/CED-78-113	Federal Domestic Food Assistance Programs--A Time for Assessment and Change (June 13, 1978)

VI. GAO CONTACT

Brian Crowley 275-5138

AG 13: ELIMINATE OVERLAP OF THE SCHOOL LUNCH BENEFIT

I. PPSSCC ISSUE AND SAVINGS

According to the PPSSCC,

"Federal reimbursements for free lunches could be automatically added to income calculations when determining Food Stamp Program eligibility and entitlement values. Eliminating this duplication of nutrition assistance would save * * * $1.724 billion [over three years]."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATION

GAO supports the concept of considering benefits from the various food assistance programs when determining eligibility and benefits under any particular food program. GAO therefore believes that the PPSSCC recommendation to eliminate overlap between school lunch and food stamp benefits has merit. However, it should be noted that the PPSSCC proposal would not eliminate, but would reduce, the overlap between Food Stamp and School Lunch Program benefits. Food stamp procedures for calculating eligibility assume that participating households will use 30 percent of their disposable income to purchase food. Consequently, counting school lunch benefits as income when determining eligibility for the Food Stamp Program would eliminate about 30 percent of the overlap between the two programs. (Of course, the overlap would be entirely eliminated in cases where the added countable income made the household ineligible for continued food stamp benefits.)

In 1978, GAO reported (GAO/CED-78-113, 6/13/78) that some low-income families participated in as many as six different federal programs offering food assistance. This multiple participation, specifically allowable under legislation authorizing most food assistance programs, has resulted in some households obtaining more in food benefits than the average amount American families of comparable size spend for food, and substantially more than would be called for under the U.S. Department of Agriculture's (USDA's) dietary guidelines. GAO recommended that USDA study the feasibility of considering food benefits from child feeding programs, primarily school lunch, but also other feeding programs, when determining food stamp eligibility and benefits. GAO also recommended that the Congress eliminate the overlap in benefits, particularly from food stamp and school lunch participation, if the study showed such a change was feasible.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

Food stamp legislation specifically prohibits counting the value of noncash food assistance benefits for purposes of determining household eligibility and monthly benefit levels. There have been some legislative initiatives to remove that restriction but, thus far, they have not been adopted. GAO believes that if the legislative changes were made, state and local food stamp officials could administer the measures by using School Lunch Program participation data available from local schools or school districts. USDA has not committed itself to advancing legislative proposals that would allow implementation of the PPSSCC's recommendation. According to USDA's implementation status report dated October 3, 1984, this recommendation was being reviewed for further consideration.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO agrees with the PPSSCC that substantial savings are achievable but has estimated that the savings would be about $400 million annually, somewhat lower than the PPSSCC's estimate of $521 million. The principal reason is that the PPSSCC's assumptions do not precisely reflect existing costs and participation in the School Lunch Program. Specifically, the PPSSCC analysis included the 23-cent subsidy that is a part of all school lunches, regardless of whether students buy the lunches at the set price with household income or receive federal assistance in securing free or reduced-price lunches. Considering only the amount solely attributable to free school lunches and including a factor for student absenteeism would have yielded a lower savings figure.

V. RELEVANT GAO REPORTS

GAO/CED1-152	Comments on Food Stamp Program Legislation (S. 884 introduced Apr. 7, 1981)
Testimony	GAO Reviews of the Food Stamp Program, by Henry Eschwege, Director, Community and Economic Development Division, before the Senate Committee on Agriculture, Nutrition, and Forestry (Apr. 2, 1981)

Testimony	GAO Reviews of the Food Stamp Program, by Brian P. Crowley, Community and Economic Development Division, before the Subcommittee on Domestic Marketing, Consumer Relations, and Nutrition, House Committee on Agriculture (Mar. 19, 1981)
GAO/CED-78-113	Federal Domestic Food Assistance Programs--A Time for Assessment and Change (June 13, 1978)

VI. GAO CONTACT

Brian Crowley 275-5138

AG 9: UPDATE FAMILY MAKEUP FOR THE THRIFTY FOOD PLAN

I. PPSSCC ISSUE AND SAVINGS

According to the PPSSCC,

"Age and sex characteristics of [Food Stamp Program] participants should be included in the annual update of the Thrifty Food Plan * * *. This change would save * * * $3.439 billion over three years."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATION

Maximum monthly food stamp benefits are based on the U.S. Department of Agriculture's (USDA's) annually adjusted cost of feeding a model four-person household (a man and woman, 20 to 54 years old, and two children, one 6 to 8 years old and another 9 to 11). This benefit level, after adjustments for any countable net household income and the number of persons in the household, is meant to be sufficient to help needy persons obtain a nutritionally adequate diet. However, the model household upon which USDA is basing Food Stamp Program benefit levels does not reflect the composition and nutritional needs of the average household which participates in the program. As a result, the federal government is paying out more in food stamp benefits than would be necessary under its procedures to meet the nutritional needs of specific categories (by age and sex) of individuals making up the food stamp participant caseload.

GAO believes that the PPSSCC proposal, which would base the maximum monthly allotment on the cost of feeding four "average" participants, would result in savings but would not remedy existing inequities in the program benefit structure. Under both the existing and the PPSSCC formats which involve standard allotments, some households would receive more benefits than they otherwise would receive if the specific nutritional needs of the individual members of the participating household were taken into account, and others would receive less.

In a June 1978 report (GAO/CED-78-113), GAO recommended that USDA establish demonstration projects to evaluate a system of providing food stamp benefits based on the nutritional needs of each household's members. Although this has not been done, GAO continues to believe that the recommendation has merit. Such a nutritional-needs approach could achieve savings of the same general magnitude as the PPSSCC approach, but household benefits would be determined by the age and sex composition of each participating household, thus eliminating the inequities of a system using standard allotments. Additionally, GAO said that if demonstration

projects showed the administrative feasibility of an individualized-benefit system, the Congress should authorize the Secretary of Agriculture to implement such a system nationwide.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

Any changes in the method of calculating benefits using other than the model four-person household would require a legislative amendment. If the law was amended in line with the PPSSCC proposal, USDA could implement the changes because USDA routinely updates its data on prior year participants' age and sex characteristics--information needed to calculate what it would cost to feed a household comprising "average" participants.

USDA said that it would need to make further analyses before proceeding with this proposal. One of its principal concerns was that the PPSSCC proposal would increase the proportion of participant households that would receive less benefits than considered adequate by USDA's dietary guidelines and current food costs. According to USDA's October 3, 1984, report on the status of implementing the PPSSCC's recommendations, this recommendation was being reviewed for further consideration.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC calculated its estimated savings based on the difference between the cost of feeding the model four-person household versus an "average" four-person household. However, since the time of the calculations, USDA has proposed some changes to its Thrifty Food Plan that would result in a higher "average" participant cost. This would narrow the difference in the cost of feeding the model household versus one with four "average" participants. In addition, the PPSSCC should not have included Puerto Rico in its savings analysis because Puerto Rico receives a separately administered block grant. Taken together, these two factors would reduce the PPSSCC's $1 billion annual savings estimate by about half.

V. RELEVANT GAO REPORTS

Testimony	GAO Reviews of the Food Stamp Program, by Henry Eschwege, Director, Community and Economic Development Division, before the Senate Committee on Agriculture, Nutrition, and Forestry (Apr. 2, 1981)

Testimony	GAO Reviews of the Food Stamp Program, by Brian P. Crowley, Community and Economic Development Division, before the Subcommittee on Domestic Marketing, Consumer Relations, and Nutrition, House Committee on Agriculture (Mar. 19, 1981)
GAO/CED-78-113	Federal Domestic Food Assistance Programs--A Time for Assessment and Change (June 13, 1978)

VI. GAO CONTACT

Brian Crowley 275-5138

AG 10: THRIFTY FOOD PLAN ECONOMIES OF SCALE

I. PPSSCC ISSUE AND SAVINGS

According to the PPSSCC,

"The economies-of-scale adjustment factors in the Thrifty Food Plan * * * should be revised to be more in line with * * * [current feeding costs faced by households of different sizes]. It is estimated that if the factors were adjusted to a level more representative of the [Food Stamp] Program's nutritional objectives, there would be * * * savings of * * * $835.1 million over three years."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATION

Under the U.S. Department of Agriculture's (USDA's) Thrifty Food Plan, food stamp benefits are based on the amount determined necessary to feed a model four-person household. Benefits for different size households are then determined according to an economies-of-scale adjustment factor, rather than on a proportional basis. The economies-of-scale adjustment, provided for in food stamp legislation, is based on research showing that larger households generally buy food in larger quantities (at lower unit cost), experience less spoilage and discard, and are more likely to use other good food management practices.

Using data from a 1965 survey, USDA has established economies-of-scale factors ranging from 120 percent of the pro rata amount for a one-person household to 90 percent for a household with seven or more persons. The PPSSCC said that USDA's current factors were outdated and recommended revised factors ranging from 109 percent of the pro rata amount for a one-person household to 97 percent for a household with seven or more persons.

GAO agrees with the PPSSCC that the 1965 data that are the bases for the current economies-of-scale factors may be outdated and notes that further USDA research, using more recent data (1977-78), is underway and should shed more light on how the adjustment factors should be revised.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

Changes in the economies-of-scale factors are within USDA's administrative authority. Therefore, if USDA decided to adopt different factors for the various size households, it could recalculate maximum benefit levels for use by state and local food stamp officials. USDA acknowledges that it should revise its economies-of-scale factors but said it

would wait for the results of its research using 1977-78 data before making any adjustments. USDA's implementation status report dated October 3, 1984, shows that this recommendation had been accepted and implementation plans or proposals were being developed.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

Because more recent data being developed by USDA will shed more light on this issue, GAO did not attempt to analyze the savings estimate.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

Brian Crowley 275-5138

AG 11: ELIMINATE THE $10 MINIMUM MONTHLY BENEFIT

I. PPSSCC ISSUE AND SAVINGS

According to the PPSSCC,

"The minimum monthly benefit of $10 which is given to all one- and two-person households that minimally qualify for the Food Stamp Program could be eliminated. About * * * [$138.3 million] could be saved * * * over three years by implementing this recommendation."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATION

GAO believes that having a minimum $10 benefit for all one- and two-person households, but not the larger households, that qualify for food stamp benefits raises questions of equity. GAO recognizes that this provision was instituted largely as an incentive to attract elderly participants; however, elderly persons in households with three or more persons would not be eligible for the $10 minimum.

In total, about 435,000 households, which are eligible for food stamps but entitled to less than $10 in monthly benefits, received more than they otherwise would have because of the $10 minimum benefit. Although there is no detailed breakout of how many non-elderly persons are receiving the minimum benefit when entitled to less, U.S. Department of Agriculture (USDA) statistics show that only about 35 percent of one- and two-member households include an elderly person.

Providing a minimum $10 benefit, regardless of whether the household's circumstances make it eligible for that amount of benefits, is a departure from the premise that benefits should only be provided to those applicants who have insufficient resources to secure an adequate diet.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

Food stamp legislation would have to be amended if the PPSSCC proposal were to be implemented. GAO believes that if such an amendment was adopted, implementation should not pose a problem because eligibility workers have the necessary information to adjust benefit levels as appropriate. Although USDA has stated that the $10 minimum monthly benefit is inequitable and should be repealed, it has recognized that this issue has some sensitivity. It has placed the PPSSCC proposal on hold and has recommended that it be considered in future debates regarding budget options. A similar proposal was considered but not adopted by the Congress during 1983.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO's review of the PPSSCC savings estimate, which is based on data from the 1981 survey of the characteristics of food stamp households, indicates that the estimate is reasonable. Use of data from the recently published 1982 food program characteristics study might result in slight changes (up or down) to the estimated savings amount. Benefit savings of up to $10 per household would be realized for those who are eligible for less than the $10 minimum. The resulting caseload reduction also could reduce administrative efforts and create some administrative cost savings, as the PPSSCC indicated.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

Brian Crowley 275-5138

LISAB 2: ENERGY AND EMERGENCY ASSISTANCE

I. PPSSCC ISSUE AND SAVINGS

Can the Emergency Assistance Program be discontinued, and can regulations regarding administration of the Low Income Home Energy Assistance (LIHEA) Block Grant be changed to create Federal savings?

The PPSSCC recommendation would result in estimated three-year total savings of $290.3 million.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The Emergency Assistance Program, which is part of the Social Security Act, was enacted in 1967 and designed to assist states in providing temporary assistance--during such emergencies as fires, floods, and other disasters--to needy families with children. GAO has no current basis for assessing the validity of the Emergency Assistance Program discontinuation issue. However, in 1978, GAO recommended that the Congress consider whether to continue the program in view of limited state participation, other means available to deal with emergencies, and the disproportionate amount of program funding going to a few states.

Regarding LIHEA's administration and the prospects for federal savings, the PPSSCC recommended eliminating states' authority to transfer LIHEA funds to other programs. GAO believes this recommendation does not have merit. Eliminating the transfer authority without decreasing the LIHEA appropriation would not achieve federal savings.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

Both PPSSCC recommendations would require legislation. Concerning the LIHEA transfer authority, eliminating it would move away from the principle--embodied in the block grant approach--of giving states more authority and responsibility for administering federal programs. Neither recommendation has been introduced to the Congress as proposed legislation.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC savings estimate for discontinuing the Emergency Assistance Program is realistic, because it represents the federal appropriation amount. The savings estimate for eliminating LIHEA fund transfer authority is not realistic because it does not reduce the LIHEA appropriation by a corresponding amount. Under the LIHEA

block grant, states have the discretion to establish their own eligibility criteria and benefit levels within broad federal parameters and can also carry over up to 25 percent of their allocation to the following year. It seems likely that if transfer authority was eliminated, the states would revise their eligibility criteria or benefit levels to spend the funds now being transferred or would carry over the funds to the following year (subject to the carryover limit) or a combination of both.

V. RELEVANT GAO REPORTS

GAO/HRD-84-64	States Fund An Expanded Range of Activities Under Low-Income Home Energy Assistance Block Grant (June 27, 1984)
GAO/HRD-78-65	Should Emergency Assistance for Needy Families Be Continued? If So, Program Improvements Are Needed (Apr. 5, 1978)

VI. GAO CONTACT

Joseph Delfico 275-6193

LISAB 7: SUPPLEMENTAL SECURITY INCOME PROGRAM

I. PPSSCC ISSUE AND SAVINGS

Can the Supplemental Security Income (SSI) Program eligibility criteria and benefit formulas be simplified to make the program more manageable and cost-effective?

The PPSSCC estimates that its recommendations would improve the effectiveness of the SSI eligibility verification procedures and the cost-effectiveness of its benefit redetermination procedures to produce estimated savings of $797.7 million over a three-year period.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC believes the complexity of the SSI eligibility criteria and the inflexibility of its benefit formula contribute to operational difficulties, its administrative cost per recipient is high in relation to benefit amounts paid and its high-risk case benefit redetermination process is not as effective in disclosing benefit errors compared to the extent of review effort as is the process used for most other cases. Its recommendations are aimed at reducing the cost to administer the SSI program and avoiding excess payments.

There is a recurring interest, with respect to SSI and virtually all the needs-based programs, in simplifying the programs' eligibility determination and benefit computation processes. However, there is a countervailing interest in carefully measuring the extent of a person's actual need and the exact benefit to be paid so that ineligibles do not receive benefits and eligibles do not receive more than they should.

The PPSSCC's recommendations to (1) consider standard amounts of living expenses rather than actual needs and (2) reduce the sensitivity of benefit amounts to minor changes in recipient circumstances by making flat payments for ranges of needs tends to move away from the underlying concept of paying benefits based on actual needs. Flat payments for ranges of needs would mean that some people would receive more than they need and others less, and that such variations could be significant depending upon how the need ranges were configured. For this reason and because the administrative effort required to determine which range of compensable need fit an individual's circumstances might approximate what now is required to determine his or her actual needs and proper benefit amount, GAO does not believe these recommendations have merit.

The PPSSCC recommendation, that SSA reduce the level of benefit redetermination effort on high-risk SSI cases by relying extensively on client response to an annual questionnaire to decide whether in-depth field investigations including visits to clients are warranted, could result in more undetected erroneous payments and, in GAO's view, does not have merit at this time. Certain information such as living arrangements can only be verified by field investigations; accordingly, some cases will need to be designated as high risk and investigated by field offices. GAO agrees with the PPSSCC suggestion--and so reached agreement with SSA's Office of Assessment in June 1982 (see GAO/HRD-82-126)--that SSA undertake a cost-benefit study of the SSI benefit redetermination process to assess the process' frequency and effectiveness.

GAO believes the PPSSCC recommendation that redetermination of SSI recipient income be done by computer matching has merit. SSA has been computer matching SSI records with various federal and state records in response to GAO's recommendations in GAO/HRD-80-4. Furthermore, the Deficit Reduction Act of 1984 made this activity a statutory requirement.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The eligibility criteria and benefit amount changes would require congressional action. A cost-benefit study of the SSI benefit redetermination process needs to be made before it is changed. As already discussed, the proposal on computer matching has been implemented.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

Because the PPSSCC did not provide enough information on how its savings estimate was prepared, GAO has no basis for an opinion on its accuracy.

V. RELEVANT GAO REPORTS

GAO/HRD-82-126	Social Security Needs to Determine the Cost Effectiveness of the Supplemental Security Income Redetermination Process and to Implement Recommendations Made for Eliminating Erroneous Payments (Sept. 2, 1982)
GAO/HRD-80-4	Social Security Should Obtain and Use State Data to Verify Benefits for All Its Programs (Oct. 16, 1979)

VI. GAO CONTACT

Joseph Delfico 275-6193

LISAB 6: SIMPLIFICATION OF PROGRAMMATIC AND PROCEDURAL ELIGIBILITY REQUIREMENTS

I. PPSSCC ISSUE AND SAVINGS

Can simplification and standardization of programmatic and procedural eligibility requirements for low income assistance programs result in cost savings?

Estimated savings calculated for LISAB 5 (Federal Incentive Program for Automation of State Welfare Data) encompass this issue.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

While GAO believes the PPSSCC's identified goal of reducing program complexity and erroneous payments has merit, GAO takes exception with the PPSSCC's recommendation that states adopt an untested model computer system. Obtaining agreement among program officials would be difficult as to what would constitute more simplified and uniform definitions of the qualifying recipient unit, income and assets and such other eligibility factors. GAO believes that little progress can be achieved on procedural simplicity and standardization until such programmatic issues are resolved administratively or through legislation.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

As stated in issue LISAB 5, GAO does not believe it is feasible or appropriate to implement a model computer system until it has been appropriately tested and validated. The model system has not as yet been implemented by any state, insofar as GAO is aware.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC indicated the savings estimate for LISAB 5 encompassed this issue. Accordingly, GAO made no separate analysis for LISAB 6.

V. RELEVANT GAO REPORTS

GAO/HRD-81-119	Concerns about HHS' Ability to Effectively Implement Incentive Funding for State Information Systems in the Aid to Families with Dependent Children Program (June 29, 1981)

VI. GAO CONTACT

Joseph Delfico 275-6193

INFO 4: INFORMATION UTILIZATION--COMPUTER MATCHING

I. PPSSCC ISSUE AND SAVINGS

Can improved utilization of available government data through implementation of automated interagency computer matching result in significant savings?

Computer matching is an effective management tool for identifying fraud, waste and abuse of government benefits, entitlement and loan programs. Computer matching is useful in other ways, too, such as validating billings of large government contractors.

Recommendations in other task force reports to correct information problems related to better computer matching provide opportunities for cost savings and revenue increases of $15.9 billion over three years ($11.3 billion when information gaps cited in other issues in this information utilization report are netted out).

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

Examples of roadblocks hampering the effective use of computer matching which are addressed by recommendations in other PPSSCC reports include

--ADP 1: incompatable computer data and systems thwart matching programs because many government computers can't talk to each other to share data.

--ADP 6 and 15: no long-range planning for state-of-the-art computer system upgrading results in failure to anticipate future needs and causes fragmented procurement of new systems.

--LISAB 4: matching is difficult because the same data are often not collected for entitlement programs with similar purposes such that AFDC, Food Stamp and SSI require social security numbers while Medicaid and Secion 8 housing do not.

--HUD 5: inaccurate and fraudulent financial data prevent computer matching to verify eligibility for Section 8 rent subsidy recipients.

GAO believes this issue has merit and recommended that such a policy be implemented in GAO/HRD-82-9 for welfare programs, with appropriate safeguards to protect personal privacy in managing the data. The PPSSCC noted several computer matching efforts which over the years

have disclosed fraud, waste and abuse in various federally aided programs. Some of these efforts were undertaken as a result of GAO recommendations.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The requirement for automated exchange of data (computer matching) in several welfare programs, including appropriate personal privacy safeguards, was included in the Deficit Reduction Act of 1984 (Public Law 98-369).

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC savings estimate is a conglomerate of estimates largely from various PPSSCC reports with recommendations to correct information problems related to this issue. GAO has separately addressed those estimates and in general believes they are overstated or that sufficient information was not provided to provide GAO with a basis for an opinion on whether or not they were realistic. However, as these PPSSCC recommendations are being implemented, some budgetary effects can be expected.

V. RELEVANT GAO REPORTS

GAO/HRD-84-72	GAO Observations on the Use of Tax Return Information for Verification in Entitlement Programs (June 5, 1984)
GAO/HRD-82-9	Legislative and Administrative Changes to Improve Verification of Welfare Recipients' Income and Assets Could Save Hundreds of Millions (Jan. 14, 1982)

VI. GAO CONTACT

Joseph Delfico 275-6193

LISAB 4: IMPROVED INCOME VERIFICATION THROUGH COMPUTER MATCHING

I. PPSSCC ISSUE AND SAVINGS

Can improved verification of recipient income, through implementation of automated interagency exchange of wage data, result in significant cost savings?

A first-year net estimated savings from the recommendations, using a conservative 25 percent reduction in the 1982 level of erroneous payments as a basis for projections, are $614 million (includes one-time start-up cost of $52.9 million). Total three-year savings amount to $2,257.5 million, of which about $50 million applied to the unemployment insurance program and about $2.2 billion applied to five needs-based programs.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC believed that for the Aid to Families with Dependent Children (AFDC), Food Stamp, Supplemental Security Income (SSI), Medicaid and Section 8 housing programs, existing federal regulations for verifying recipient income for eligibility and grant amount purposes were minimal. It noted that state administered programs (AFDC, Food Stamp and Medicaid) have the greatest access to automated wage data, but its use for verification purposes was not consistent and that some data, such as tax return information, either have legislative restrictions on their use or lack affirmative legislation authorizing such data to be used.

The PPSSCC recommended legislative changes to increase the availability and require the use of automated wage data, certain tax return information and other relevant data in the administration of these five needs-based programs. It also recommended administrative actions to improve the income verification process in part through enhanced automated data exchange.

GAO believes these proposals have merit. Virtually all the PPSSCC's recommendations which, for the most part, were based on GAO's 1982 report (GAO/HRD-82-9, Jan. 14, 1982) were included in the Deficit Reduction Act of 1984 (Public Law 98-369).

GAO's major concern is that the PPSSCC did not adequately address the need for individual privacy protection in any automated exchange of data (computer matching). That concern was remedied by the addition in the act of due process requirements and restrictions on disclosure of personal information by the agencies using such information.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

As discussed above, legislation addressing the recommendations has been enacted.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

In making its savings estimate, the PPSSCC assumed that all overpayment errors resulted from excessive/unreported income in the five programs it included in this issue. Based on GAO's knowledge of the programs, only about half of the overpayment errors relate to income and would be affected by the PPSSCC recommendations. Using the PPSSCC methodology and applying it to half the overpayments, GAO estimated three-year savings of $825 million rather than the $2.2 billion estimated by the PPSSCC.

V. RELEVANT GAO REPORTS

GAO/HRD-84-72	GAO Observations on the Use of Tax Return Information for Verification in Entitlement Programs (June 5, 1984)
GAO/HRD-82-9	Legislative and Administrative Changes to Improve Verification of Welfare Recipients' Income and Assets Could Save Hundreds of Millions (Jan. 14, 1982)

VI. GAO CONTACT

Joseph Delfico 275-6193

HUD 5: VERIFICATION OF ELIGIBILITY FOR BENEFITS

I. PPSSCC ISSUE AND SAVINGS

"Can the Department of Housing and Urban Development (HUD) improve verification of eligibility of applicants for housing subsidy benefits?"

If recommendations are adopted, PPSSCC estimated that $470 to $660 million could be saved and more properly allocated to qualified recipients of Section 8 Leased Housing Program benefits in Year 1.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The section 8 program provides rental assistance payments for low-income families. A major criterion for program eligibility is the applicant's income, including all wages and certain unearned income benefits provided by federal, state, or local governments. Responsibility for determining applicants' eligibility for housing rental assistance primarily rests with Public Housing Authorities (PHA) and section 8 project owners. HUD performs management reviews to ensure that PHAs and section 8 project owners are carrying out their responsibilities. The PPSSCC findings dealt primarily with HUD and PHAs roles. It did not address the section 8 project owners' role. Income verification helps reduce rental assistance overpayments--excessive rent subsidies occur because eligible applicants underreport income or overpayments occur because ineligible applicants underreport income.

PPSSCC reviewed past HUD audits and found that applicants improper income reporting has contributed to misdirected subsidy payments by the government. The PPSSCC noted that HUD's Inspector General estimated that between 12 and 17 percent of the tenants receiving housing subsidies under the section 8 program falsify information to gain benefits. In each of the five cities the PPSSCC visited it found that different methods were being used to verify income data and that many of the officials interviewed believed that HUD could do a better job in training or better inform PHA management about HUD programs and the application eligibility process. Based upon their visits and discussions with officials, the PPSSCC team felt that monitoring appeared to receive a subordinate role to getting the funds to recipients. Based upon its work PPSSCC concluded that HUD did not have an effective system to verify an applicant's income.

GAO agrees that HUD needs to improve its system for verifying applicant's income. Since 1971, GAO has issued a number of reports on section 8 and other subsidized housing programs which have identified shortcomings on

tenant income reporting and verifications. These reports generally concluded that some tenants pay less for their rent than their fair share, and that inadequate verification of tenants' reported incomes contributes to this problem.

To correct the income verification problems PPSSCC recommended that HUD (1) institute a computer matching program using state and federal wage and income data to enhance the eligibility verification process, (2) better train PHA management responsible for processing applications for HUD benefits, and (3) improve monitoring of PHAs to ensure compliance with HUD's eligiblity requirements. GAO believes the PPSSCC recommendations have merit and has made similar recommendations relating to training and monitoring (GAO/CED-80-59). Also, GAO has recommended (GAO/HRD-82-9) that HUD require that available federal and state wage data be used in HUD's annual section 8 housing management reviews to verify that housing managers are accurately determining applicants' or tenants' income. With respect to computer matching, however, care must be exercised to protect the privacy of personal data.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

HUD is currently taking actions to implement the PPSSCC recommendations. It is developing a centralized quality control system on eligibility determinations which will include computer verification. However, PPSSCC said before a program of computer matching can be fully implemented, HUD needs legislative authority to require social security numbers, and to obtain access to federal and state wage data files. Legislative proposals granting HUD the necessary authority have been submitted to the Congress, but no action was taken. HUD will submit a proposal as part of its 1986 budget package.

In responding to the recommendation on training, HUD said it hired a contractor who developed a Public Housing Desk Guide for use as a basis for classroom instruction on application processing. In August 1984 the Guide was scheduled for printing, and training was to begin. To improve monitoring HUD is revising the instructions for occupancy audits to emphasize income verification. The handbook revision is expected to be completed in January 1985.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

PPSSCC estimated that the improved verification process could result in a redeployment of $470 million to $660 million from ineligible recipients to qualified recipients in year one. The estimates were derived from

past Office of Inspector General studies that estimated 12 to 17 percent of the tenants in the section 8 program filed false applications. These percentages were then applied to the 1982 section 8 outlays of $3.9 billion to estimate the range of funds available for redeployment.

While GAO's past work has identified various shortcomings on tenant income reporting and verification, the work did not include projections on overpayments. Consequently, GAO cannot comment on the accuracy of the PPSSCC projections.

V. RELEVANT GAO REPORTS

GAO/HRD-84-72	GAO Observations On the Use of Tax Return Information For Verification In Entitlement Programs (June 5, 1984)
GAO/HRD-82-9	Legislative and Administrative Changes to Improve Verification of Welfare Recipients' Income and Assets Could Save Hundreds of Millions, (Jan. 14, 1982)
GAO/CED-81-41	Further Actions Needed to Improve Management of HUD Programs (Feb. 26, 1981)
GAO/CED-80-59	Section 8 Subsidized Housing--Some Observations On Its High Rents, Costs, and Inequities (June 6, 1980)
Testimony	GAO Reviews of the Lower Income Rental Assistance Program (Section 8) by Henry Eschwege before the Subcommittee on Housing and Urban Affairs, Senate Committee on Banking, Housing and Urban Affairs (Apr. 22, 1981)

VI. GAO CONTACT

John Luke 275-6111

LISAB 5: FEDERAL INCENTIVE PROGRAM FOR AUTOMATION OF STATE WELFARE DATA

I. PPSSCC ISSUE AND SAVINGS

What are the cost savings and avoidances which can be realized from state automated data processing (ADP) of welfare recipients, and are Federal incentives suceeding in boosting such automation efforts?

Wisconsin is considered to be the flagship state in data automation. Extrapolating from the state's experience with data automation to a national level, it is estimated that three-year total savings could amount to $2,925 million in federal costs less a potential overlap of $1,545.8 million for three years with Issues LISAB 4 and LISAB 7.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO believes there is merit to automating state welfare data and also encouraging such automation by offering financial incentives. Regarding the prospective success of federal incentives for encouraging automation, the PPSSCC did not provide sufficient information for GAO to have a basis for comments. The only related work GAO has done was a review of HHS' ability to implement incentive funding for AFDC systems (GAO/HRD-81-119).

On the PPSSCC recommendations to accelerate federal efforts to coordinate welfare recipient data and to standardize welfare forms to enhance accessibility of common information, GAO believes such actions would enhance integration and automation of applicant and recipient information for welfare programs.

The PPSSCC also recommended that a proposed model automated system jointly developed by HHS and Agriculture be used as a guide for states to follow in implementing automated systems. GAO does not believe this recommendation has merit until such a system has been fully tested and validated. To GAO's knowledge, this system currently is only described in the interagency task force draft report.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO believes the recommendations to accelerate federal efforts to coordinate welfare recipient data and to simplify welfare forms are feasible to implement, although they would require extensive interagency coordination, in all likelihood necessitating Office of Management and Budget involvement. Also, depending on the

nature and extent of changes, legislation and/or individual program regulations might have to be revised to accommodate any eligibility factor changes or other actions taken to facilitate welfare recipient data coordination.

GAO does not believe implementation of the recommended model automated system should be attempted until it has been appropriately tested and validated. GAO had a similar concern when it reviewed a model computer system proposed by HHS for use by the states that had not been effectively tested and validated and in which GAO found several deficiencies (GAO/HRD-81-119).

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

While cost savings and cost avoidances may result from automating data on welfare recipients, GAO believes that the PPSSCC savings estimate is too high because the PPSSCC used incorrect federal cost sharing rates in its computations. The PPSSCC assumed the federal sharing rates for the AFDC and Medicaid programs were about 62.5 percent, whereas the effective rate for each program is 54 percent. In addition, GAO believes that extrapolating one state's experiences to the national level is not a reliable predictive base because of the variations among the states in administrative policies, practices and procedures, as well as the variable state capabilities to implement revised requirements.

V. RELEVANT GAO REPORTS

GAO/HRD-81-119 Concerns about HHS' Ability to Effectively Implement Incentive Funding for State Information Systems in the Aid to Families with Dependent Children Program (June 29, 1981)

VI. GAO CONTACT

Joseph Delfico 275-6193

LISAB 1: COMBINED WELFARE ADMINISTRATION

I. PPSSCC ISSUE AND SAVINGS

Should funding of the Federal contribution towards the state costs of administering the Aid to Families with Dependent Children (AFDC), Medicaid, and Food Stamp programs be changed from separate, open-ended matching to a single payment to the states with no matching requirement?

The recommendation would result in an estimated three-year total savings of $929 million.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC combined welfare administration (CWA) proposal would consolidate into one block (based on estimated caseloads and current cost levels) the federal share of state costs for administering the AFDC, Medicaid and Food Stamp programs currently funded in separate open-ended appropriations. While the proposal would provide for adjustments in the block amount for caseload changes and cost level increases, it would establish a maximum cost level per case in each program so that block grants to states with higher per case costs would be limited to this maximum level. States would pay the difference between the federal contributions and actual program administrative costs. The proposal would eliminate current incentive funding for states to enhance their programs' management information systems.

While this proposal could encourage states to improve operational efficiency, it does have drawbacks. GAO takes no position on the merit of the proposal but sees the following pros and cons.

PROS - Capping the reimbursement per case and eliminating incentive funding that results in reduced federal support for welfare administrative costs could provide the states incentives for improving their operational efficiency and cost effectiveness, such as by adopting past GAO recommendations to (1) establish staffing levels based on performance goals of administrative efficiency developed through work measurement and (2) eliminate inefficient practices through the use of work simplification methods and various other operational analysis techniques. Also, the proposed change in the federal assistance system could encourage better productivity because states, in effect, would retain all cost savings rather than sharing them with the federal government.

CONS - Drawbacks that GAO sees in the CWA proposal include the elimination of incentive funding for certain

activities such as improved state management information systems. Administrative efficiency savings may not be enough for states to upgrade their systems, which are needed to improve operational effectiveness and reduce erroneous payments.

Also, establishing a uniform nationwide maximum administrative cost per case by program (as the CWA proposal provides for) could unfairly penalize states with above average per case costs currently that result from higher salary scales, extensive operating practices designed to control erroneous payments, and efforts designed to improve the quality of client service. If a relationship exists between processing costs and the amount of errors made in determining eligibility and grant amounts, reducing a state's administrative costs substantially could result in more erroneous payments and subject the state to fiscal sanctions.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC CWA proposal would require legislative action. GAO does not believe the proposal would be feasible to implement without additional modification to (1) retain for some time period, such as 2 years, incentive funding for improving state management information systems, and (2) establish a maximum cost per case for each state based on staffing levels developed from productivity goals in each state as a basis for determining an administrative budget for federal participation. The states would raise objections to this proposal without these modifications, particularly those states with above average costs per case based on supportable cost differences, at least for the AFDC program. Many states also currently have budgetary problems so that the loss of significant federal funds would pose a significant burden on their public assistance program operations.

If the CWA proposal were to be enacted as recommended by the PPSSCC, its effective date should be established so that the states would have time to develop worker performance goals that would be used to establish staffing levels and to begin planning the most effective ways to upgrade their management information sytems.

The PPSSCC CWA proposal has not been introduced as legislation.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC savings estimate, at least for the AFDC program, is not realistic because it is based on a

proposed maximum cost per case that is understated by a factor of 3 inasmuch as it is based on the number of individual recipients, not the number of cases.

GAO has not previously estimated savings based on the CWA proposal, but has calculated savings that could result from improved AFDC administration (GAO/HRD-78-159, Sept. 5, 1978.)

V. RELEVANT GAO REPORTS

GAO/HRD-82-20	Analysis of Four States' Administration of the AFDC Program: Management Improving but More Needs to Be Done (Feb. 22, 1982)
GAO/HRD-78-159	Analysis of the Administrative Efficiency of the Aid to Families with Dependent Children Program in Contra Costa County, California (Sept. 5, 1978)

VI. GAO CONTACT

Joseph Delfico 275-6193

SSA 8: ELIMINATION OF FEDERAL FISCAL LIABILITY (FFL)

I. PPSSCC ISSUE AND SAVINGS

Should the Social Security Administration (SSA) eliminate Federal Fiscal Liability (FFL) payments?

SSA spends approximately $7 million per year to determine the appropriate FFL payments, if any, to 17 eligible states. The FY 1983 cost of FFL payments is estimated at $27.2 million. Elimination of FFL would result in three year savings of $115.8 million.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC recommended that HHS administratively eliminate future federal fiscal liability (FFL) payments and discontinue all additional sampling of Supplemental Security Income (SSI) cases, in states where the federal government administers state supplementation payments, that are used to measure FFL payment error rates at the state level.

Under the SSI program, states have the option of administering their own supplementation payments or of having the federal government administer them along with the basic SSI payments. Currently 17 states have arranged for SSA to administer their supplements. Until the end of fiscal year 1984, this federal fiscal liability was a sanction the federal government by regulation imposed on itself because of federal errors made in administering these state supplements. The sanction amount paid to each affected state was that portion of state funds misspent due to these federal errors and was found by additional sampling of SSI cases in these states. The federal government paid the entire cost of this extra case sampling and of calculating its fiscal liability. In September 1984, SSA rescinded its fiscal liability regulations.

In GAO/HRD-77-126, GAO proposed that SSA (1) remove from its Office of Quality Assurance the obligation to obtain FFL data so that the office could more effectively measure overall program payment quality and perform more indepth evaluations of the causes of SSI payment errors; and (2) use some other mechanism, such as the automated overpayment system, to satisfy the FFL regulatory requirement.

GAO does not believe the proposals have merit as a matter of equity. Federal fiscal sanctions are imposed on the states for the federal share of erroneous payments above specified error tolerance rates in the state-administered Aid to Families with Dependent Children (AFDC)

program. It does not seem equitable for the federal government to relieve itself of liability for incorrectly administering state funds while requiring the states to maintain liability for incorrectly administering federal funds.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC's recommendations have been implemented by SSA effective with the start of fiscal year 1985.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC estimate of savings resulting from elimination of FFL payments and case sampling is overstated based on actual fiscal year 1983 FFL of $20.7 million (the PPSSCC estimated $27.2 million). Also, the portion of savings the PPSSCC estimated for eliminated case sampling for FFL purposes ($7 million) is higher than SSA's figure ($5 million) provided in its final rules terminating its federal fiscal liability.

V. RELEVANT GAO REPORTS

GAO/HRD-77-126 Supplemental Security Income Quality Assurance System: An Assessment of Its Problems and Potential for Reducing Erroneous Payments (May 23, 1978)

VI. GAO CONTACT

Joseph Delfico 275-6193

SSA 5: AID TO FAMILIES WITH DEPENDENT CHILDREN FISCAL SANCTION POLICY

I. PPSSCC ISSUE AND SAVINGS

How can the Social Security Administration (SSA) strengthen its implementation of the fiscal sanctions policy in the Aid to Families with Dependent Children (AFDC) program as mandated by the Michel Amendment?

Improvements in the administration of this policy would facilitate the assessment of fiscal sanctions for individual states. Imposition of fiscal sanctions could result in $31 million in savings and $210 million in cash accelerations over three years.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC recommended that HHS impose the "Michel Amendment" sanctions and consider withholding in advance estimated future sanctions. GAO takes no position on the merits of these proposals but has questioned whether fiscal sanctions could be fairly applied in GAO/HRD-80-80. Federal fiscal sanctions against the states would be based on the AFDC quality control (QC) error rates in excess of 4 percent by September 30, 1982, as directed under the "Michel Amendment". In GAO's opinion, fiscal sanctions place the federal and state governments in an adversary relationship at a time --higher than acceptable error rates--when cooperation is needed for reducing errors. Also, because error rates can result in sanctions, states may have incentives to identify fewer errors. The discouragement of error identification could reduce QC usefulness as a management tool for developing corrective actions aimed at the causes of errors. In GAO/HRD-80-80, GAO also questioned whether QC system error rates were comparable enough to support sanctions because they (1) varied in statistical precision with some states reviewing smaller case samples and having greater fluctuations in reported error rates; (2) did not clearly show the effects of program and policy differences among the states; and (3) were not based on the same error identification procedures in all states.

In addition, GAO believes that (1) the extensive and complex AFDC program changes made by the Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35); (2) the manner and timing with which the states implemented the changes; and (3) Department of Health and Human Services (HHS) modifications made to the QC error identification process during the period the program changes were being implemented could result in inequitable treatment of the states if sanctions are based on QC error rates developed during this period. The Secretary of HHS has the authority to waive sanctions under specified conditions.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The AFDC fiscal sanction policy of the "Michel Amendment" has been enacted into law. As part of the Tax Equity and Fiscal Responsibility Act of 1982 (Public Law 97-248), the Congress continued the 4 percent error tolerance limit of the Michel Amendment from fiscal year 1982 to fiscal year 1983 and reduced the limit to 3 percent for fiscal years 1984 and 1985. In its budget submissions for the AFDC program for fiscal years 1984 and 1985, the administration has included estimated sanction collections. HHS has stated in appropriation hearings that it intends to collect fiscal sanctions.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The "Michel Amendment" sanctions were to be imposed beginning with fiscal year 1981 for states whose error rate exceeded an interim target rate for that period. The PPSSCC fiscal year 1981 savings estimate for sanction liabilities seems reasonable because that period was one generally of program stability and is based on past error rate trends. The estimates for fiscal years 1982 and 1983 are open to question because of the program changes made beginning with fiscal year 1982 and the error identification modifications mentioned above.

V. RELEVANT GAO REPORTS

GAO/PEMD-84-6	An Evaluation of the 1981 AFDC Changes: Initial Analyses (April 2, 1984)
GAO/HRD-80-80	Better Management Information Can Be Obtained from the Quality Control System Used in the Aid to Families with Dependent Children Program (July 18, 1980)

VI. GAO CONTACT

Joseph Delfico 275-6193

AG 12: REDUCE COST OF PRINTING FOOD STAMP COUPONS

I. PPSSCC ISSUE AND SAVINGS

According to the PPSSCC,

"The costs of printing food stamp coupons could be reduced by (1) redefining the individual coupon book makeup, (2) adopting a $20 coupon denomination, (3) creating a $100 coupon book, and (4) distributing loose $1 coupons and eliminating the $2 book. These changes would reduce the $28 million annual printing cost by 32 percent and save * * * $30.1 million over three years."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO believes that the best savings potential is in the area of using higher coupon values and thus fewer coupons in three of the six coupon books ($40, $50, and $65) now used. The three highest denomination books contain 8, 11, and 11 coupons, respectively, and through even modest reconfiguring, should be able to be produced at less cost.

Although the other three recommendations have some merit, they also have some drawbacks. Producing a $20 coupon and creating a new $100 coupon book could further reduce the number of coupons required as well as the number of books needed, thus saving on coupon printing and book binding costs. Revisions such as these provide opportunities for savings because the average household's benefit exceeds $100. Also, discontinuing the $2 book in favor of issuing unbound $1 coupons would reduce coupon book binding costs.

However, some factors would need to be carefully studied in order to maximize production cost savings without giving up other advantages. Currently, stores may give change only in the form of loose $1 coupons and coins up to 99 cents. Therefore, whatever changes are made would have to recognize this operating constraint and assure a sufficient supply of $1 coupons. Additionally, the retooling costs of producing a $20 coupon would have to be considered and the design of a higher value coupon would have to include whatever features would be needed to offset the increased risk of counterfeiting.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

Implementation of these PPSSCC recommendations is within the U.S. Department of Agriculture's (USDA's) regulatory authority and could be accomplished through changes in the

coupon procurement process. According to USDA's October 3, 1984, implementation status report, it has changed the makeup of its $50 and $65 coupon books but does not plan any other changes. It said that additional security measures would be needed to prevent fraud and counterfeiting if a $20 coupon was created, questioned the need for a $100 coupon book, and cited potential disruptions in states' mail issuance systems that currently cannot handle loose coupons.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO has not analyzed the PPSSCC savings estimate in enough detail to determine if it is realistic. However, because the PPSSCC did not consider the cost of developing a $20 coupon and any possible increased costs attributable to starting production of a new coupon, potential savings could be somewhat less than the PPSSCC projected.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

Brian Crowley 275-5138

WAGE 1, LABOR 12, USAF 15: THE DAVIS-BACON ACT

I. PPSSCC ISSUE AND SAVINGS

Should the Davis-Bacon Act be repealed? If repeal cannot be accomplished, what modifications can be made to the law and regulatory management to reduce the cost of compliance while retaining the established protection for workers?

Cost savings to the federal government from repeal of the act which regulates the wages of employees working on federal or federally-funded construction projects, were estimated at $4.97 billion for a 3-year period (WAGE-1). Three-year cost savings to the Air Force alone from repeal were estimated at $1,344.5 million (USAF-15). Savings from limiting the act's coverage to contracts for $25,000 or more and implementing regulatory changes proposed by the Department of Labor were estimated at $1,986 million over 3 years (LABOR-12).

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO believes that the PPSSCC's recommendations have merit and GAO has made similar recommendations to the Congress.

If the Davis-Bacon Act is repealed, GAO believes the Secretary of Labor should consider periodically reviewing government construction contracts to assess whether any egregious situations occurred affecting the employees working on contracts.

In the absence of repeal, GAO favors PPSSCC's recommendations that the act be amended to raise the threshold for contract coverage, permit the unlimited use of helpers, and that the Copeland Anti-kickback Act be amended to reduce recordkeeping requirements.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

Most of the PPSSCC's recommendations would require legislation. Numerous bills have been introduced in recent years to repeal or amend the Davis-Bacon Act. None have passed.

The Department of Labor proposed regulations to permit increased use of semi-skilled helpers, eliminate weekly payroll submission requirements (of the Copeland Anti-Kickback Act), and change the methods for determining prevailing wages. The regulations were challenged in court. The courts determined that Labor could change the

methods for determining prevailing wages and permit the use of some helpers. However, eliminating weekly payroll submission requirements was not permitted.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The savings estimated by PPSSCC appear reasonable. The savings for LABOR-12 and USAF-15 should not be added because they relate to actions similar to those recommended in WAGE-1. The savings related to LABOR-12 and USAF-15 appear to have been eliminated as duplicated savings from the PPSSCC's final summary report.

V. RELEVANT GAO REPORTS

GAO/HRD-81-10 GAO/HRD-81-11	Review to Determine Whether the Davis-Bacon Act Has an Inflationary Impact and Increases Costs on METRO Construction (Oct. 2, 1980)
GAO/HRD-79-81	The Davis-Bacon Act Should Be Repealed (Apr. 27, 1979)
B-146842	Need for Improved Administration of the Davis-Bacon Act Noted Over a Decade of General Accounting Office Reviews (July 14, 1971)

VI. GAO CONTACT

Franklin Curtis 275-5451

WAGE 2, LABOR 13, USAF 17: THE WALSH-HEALEY ACT

I. PPSSCC ISSUE AND SAVINGS

Should the Walsh-Healey Act be amended or repealed?

Repealing the act, which applies to Government contracts for materials, supplies, articles, and equipment, or eliminating the daily overtime requirement was estimated, over a 3-year period, to save procurement costs of $3.37 billion in WAGE-2 and $1.24 billion in LABOR-13. Three-year procurement cost savings to the Air Force, by amending the act to require overtime rates only for more than 10 hours work in a day, were estimated at $430.3 million.

WAGE-2 also recommended (1) repeal of the daily overtime provision of the Contract Work Hours and Safety Standards Act, which applies to contractors who employ mechanics and laborers in constructing public works, and (2) in the absence of repeal of the Walsh-Healey Act, increasing the dollar threshold for the act's coverage from $10,000 to $1 million and exempting businesses with 100 or fewer employees. No specific savings were estimated for these recommendations.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO's work in the areas covered by these PPSSCC issues has largely been limited to the overtime requirements of the Walsh-Healey Act and the Contract Work Hours and Safety Standards Act and GAO has no opinion on the other aspects of these acts. All savings estimated by PPSSCC relate to the elimination or modification of the Walsh-Healey Act's daily overtime requirements.

GAO agrees with the PPSSCC's recommendations to eliminate or modify the daily overtime requirements. In 1976, GAO reported that altered work schedules can benefit employees and employers but several federal laws needed revision if employees of government contractors were to be permitted to use certain altered work schedules. GAO recommended changes to the acts to alter the overtime pay requirements for employees who work compressed or flexible work schedules. For example, GAO recommended that overtime only be required for employees who work a 4-day per week schedule when their workday exceeds 10 hours.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

All of the PPSSCC's recommendations would require legislative changes. Legislation has been introduced to eliminate the requirements of both acts for paying

overtime for work in excess of an 8-hour day. However it has not passed. Generally employers favored changes to the acts' overtime requirements but labor unions did not.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The savings estimated by PPSSCC are based on efficiency gains and greater competition by increasing the numbers of employers who would bid on government contracts if there were no daily overtime requirements. The PPSSCC recognized that, while savings appear substantial, they are difficult to precisely quantify. For example, WAGE-2 and LABOR-13 estimate 3-year savings of $3.37 billion and $1.24 billion respectively from the same recommendation--eliminating the daily overtime requirement.

GAO has not done work which would enable it to estimate the savings that could be realized from implementing the PPSSCC's recommendations. However, GAO believes that the PPSSCC's estimates provide reasonable evidence that substantial savings can result from eliminating or modifying the acts' daily overtime requirements.

The savings related to LABOR-13 and USAF-17, which appear to have been eliminated as duplicated savings from the PPSSCC's final summary report, should not be added to the WAGE-2 savings because they relate to similar recommendations.

V. RELEVANT GAO REPORTS

GAO/PSAD-76-124 Contractors Use of Altered Work Schedules For Their Employees--How is it Working? (Apr. 7, 1976)

VI. GAO CONTACT

Franklin Curtis 275-5451

WAGE 3, LABOR 14, USAF 14, PROP 4: THE SERVICE CONTRACT ACT

I. PPSSCC ISSUE AND SAVINGS

Should the Service Contract Act be repealed or modified? The act regulates the wages and benefits paid to employees of contractors who provide services to the government. The PPSSCC estimated that its repeal would save $3.31 billion over a 3-year period (WAGE-3). Repeal was estimated to save the Air Force alone $2.38 billion over 3 years, mostly from using contracting personnel who would have administered service contracts to better manage other larger contracts (USAF-14). Three-year savings in custodial contract costs from changes in the act and its administration were estimated at $926.2 million (PROP-4). Savings were not quantified for LABOR-14.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO believes that PPSSCC's proposal to repeal the Service Contract Act has merit. In 1983, GAO reported to the Congress that it should consider repeal of the act because (1) inherent problems existed in the act's administration, (2) wage rates and fringe benefits set under the act are inflationary, (3) accurate determinations of prevailing wages and benefits could not be made with existing data and the data needed would be costly to develop, and (4) the Fair Labor Standards Act and administrative procedures implemented through the federal procurement process could provide a measure of wage and benefit protection for employees the act now covers. If the act was repealed, GAO recommended that the Administrator for Federal Procurement Policy implement administrative procedures to protect the wages and fringe benefits of service contractors' employees, monitor the impact of repeal, and, if repeal adversely impacts employees, develop administrative policies or legislative recommendations to deal with the problem.

In the absence of repeal, PPSSCC recommended that the act be changed in a number of respects including, increasing the dollar threshold for exempting contracts from the act's coverage, eliminating application of the act to white-collar workers, broadening the industry exemptions provision, and revising the way prevailing wage determinations are made. PPSSCC also endorsed some revisions that the Department of Labor was making to regulations implementing the act.

With the exception of increasing the dollar threshold, where GAO has no basis for comment, GAO believes the PPSSCC's recommendations have merit. In 1980, GAO recommended that the Congress amend the act to

ensure that the act excluded coverage for automated data processing and other high-technology industries commercial product support services.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

Legislation to repeal the Service Contract Act was introduced in 1984 but was not enacted. The Department of Labor published regulations which, although far short of repeal, address some of the issues raised by PPSSCC. However, a court ruling upholding the regulations has been appealed by a number of labor unions.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC noted that it was impossible to precisely estimate the cost impact of the Service Contract Act. The estimate of $3.31 billion in savings in a 3-year period shown in WAGE-3 was based on reviewing several studies, including GAO's, which estimated that the Service Contract Act could be adding hundreds of millions of dollars annually to federal service contract costs. GAO believes that the PPSSCC's estimate provides a reasonable indication of potential savings from repealing the act. The savings related to USAF-14 and PROP-4 should not be added to the savings from WAGE-3 since the recommendations are similar. The USAF-14 savings appear to have been eliminated as duplicated savings from the PPSSCC's final summary report.

V. RELEVANT GAO REPORTS

GAO/HRD-83-4	The Congress Should Consider Repeal of the Service Contract Act (Jan 31. 1983)
GAO/HRD-80-102	Service Contract Act Should Not Apply to Service Employees of ADP and High-Technology Companies (Sept. 16, 1980)
GAO/HRD-80-102(A)	Service Contract Act Should Not Apply to Service Employees of ADP and High-Technology Companies--A Supplement (Mar. 25, 1981)

VI. GAO CONTACT

Franklin Curtis 275-5451

FEED 1: POLICY AND MANAGEMENT INFORMATION FOR FEDERAL FEEDING

I. PPSSCC ISSUE AND SAVINGS

Can the federal government reduce costs and better manage feeding programs/activities through a clarification of policy on feeding and through the implementation of a centralized management information system?

An overall federal feeding policy as well as agency direction could improve management efficiency and thereby reduce costs. The PPSSCC has not attempted to quantify specific cost savings that might result.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC recommended that the Office of Management and Budget establish overall guidelines for a uniform federal feeding policy that will increase the efficient management of food service in the federal government.

The PPSSCC recommendation is apparently based on its findings that, for the activities it did review, there was a tremendous lack of information regarding feeding operations and that the feeding operations it reviewed were generally considered unimportant and unworthy of management attention. The PPSSCC noted that, although most feeding programs are a very small part of an agency's budget, together these programs add up to a massive program with estimated net governmental expenditures of $21.1 billion in fiscal year 1981 which is larger than the entire budget totals of eight cabinet-level departments.

About $16 billion of the net governmental expenditures shown in the PPSSCC report are for Department of Agriculture programs which were not reviewed by the PPSSCC task force responsible for the FEED-1 issue, including $12 billion for food stamps and $3 billion for child nutrition programs. Another $3.3 billion is for Department of Defense troop feeding including $1.7 billion for subsistence allowances. A large part of the remaining amount is for DOD-supported nonappropriated fund activities and commissaries.

GAO believes that the PPSSCC combined programs that are too diverse to treat as a single policy and management issue. GAO also believes that some feeding programs are better compared with other programs not directly related to feeding. For example, GAO believes that (1) the Food Stamp Program is better compared with programs that provide benefits for the needy than with the space allowed for cafeterias in government buildings, and (2) subsistence allowances are better compared in the context of overall military compensation than with food service in Veterans Administration hospitals.

GAO has not done work relating to the need for an overall feeding policy. However, after reviewing 13 major federal domestic programs providing food or food-related assistance to the needy, GAO recommended that (1) the federal agencies administering such programs determine the extent of benefit overlaps and gaps, propose consistent eligibility requirements and procedures, and study the feasibility of considering benefits from one program when determining eligibility and benefits in other programs, and (2) the Congress, on the basis of the agencies' studies, approve an explicit national policy on amounts of assistance, consolidate programs, and eliminate duplicative benefits.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that a federal feeding policy could be developed by the Office of Management and Budget. However, GAO believes that a policy covering such diverse programs would not be useful. Implementation of a feeding policy could require legislation depending on the nature of the policy.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

PPSSCC made no savings estimate for this issue.

V. RELEVANT GAO REPORTS

GAO/CED-78-113 Federal Domestic Food Assistance Programs--A Time for Assessment and Change (June 13, 1978)

VI. GAO CONTACT

Joseph Delfico 275-6193

FEED 4: FOOD SERVICE CONTRACTS

I. PPSSCC ISSUE AND SAVINGS

"Should the General Services Administration (GSA) and other agencies implement a nationwide policy of letting food service contracts via competitive bidding on commission (rent) rates?"

The PPSSCC estimates the 3-year savings from this proposal to be $38.8 million.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

Since full and open competition is the preferred method of procurement, GAO agrees with the PPSSCC proposal that contracts for government cafeteria operations should be awarded competitively in situations where adequate competition can be obtained. However, adequate competition may not be possible for many cafeterias because facilities are located in areas that have a limited number of potential customers.

The PPSSCC recommendations included (1) developing a nationwide policy of allowing bidders to bid competitively on commission rates for food service contracts and (2) having other agencies with non-GSA contract cafeteria operations reevaluate rental rates. GAO believes these recommendations should be enacted to the extent practicable to obtain the savings available from competition. GAO has no basis for opinions on the PPSSCC recommendations to have GSA adopt a more flexible attitude on contractor requests for cafeteria price increases and to eliminate restrictions on food service contract profitability.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC view that these recommendations can be implemented using GSA and other agencies' authorities. GSA also agrees and plans to make the changes needed to establish a policy of competitive bidding on commission rates for food service contracts.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

While GAO has not done sufficient work to provide an accurate estimate of the savings that are available by implementing the recommendations, available evidence indicates that the PPSSCC estimate is overstated. It is doubtful that savings of 7.5 percent will be realized for all cafeterias, especially those located in areas that have a limited number of potential customers.

The PPSSCC proposed a savings estimate of 7.5 percent of gross sales for rent instead of the 1.15 percent that was received in fiscal year 1983. Support for the 7.5 percent rate was a consensus of several food service professionals contacted by the PPSSCC and examples of five food service contracts awarded by GSA in the Washington, D.C., area that were awarded competitively and returned an average rent of 11 percent of gross sales.

In response to the PPSSCC recommendations, GSA said it awarded eight food service contracts that include competitive bids for rent. Four of these contracts, however, either have been terminated or are in the process of termination, according to GSA, because the contractors are going broke. GSA further advised that the percentage of gross sales it receives for rent has been decreasing as the word spreads on contractor experience. In fact, the rental fee was only three-fourths of 1 percent on a contract that was recently awarded.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

James Mitchell 275-8676

TREAS 16: REVISED OFFICE OF REVENUE SHARING COMPLIANCE PROCEDURES

I. PPSSCC ISSUE AND SAVINGS

"Can Treasury reduce operating expenses and the burden on recipient governments by restructuring civil rights compliance and by amending the Revenue Sharing Act in the area of public participation?"

The PPSSCC estimated net savings of $3.2 million over three years. This estimate is based on a 50 percent reduction in Office of Revenue Sharing (ORS) Civil Rights Division staff and on the elimination of their Public Participation Branch.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC recommended changes in ORS' responsibilities and procedures for ensuring compliance with civil rights and public participation requirements. The Commission proposed that ORS restructure its civil rights compliance operations, delegating much of this responsibility to state, local, and other federal organizations. Further, it recommended revising the revenue sharing act to allow recipients to meet public participation requirements through local budget hearings. The Act had required recipients to hold two public hearings--the first on use of revenue sharing funds only; the second, on use of these funds in relation to the entire budget.

GAO has recommended that ORS more actively pursue cooperative agreements with appropriate state and other federal civil rights agencies to expedite complaint processing, avoid duplication of effort, and provide added support to compliance efforts. Like the PPSSCC, GAO has questioned the value of the requirement that recipient governments hold an initial public hearing solely on the possible uses of revenue sharing funds. The second required hearing gives citizens an opportunity for more meaningful participation in budgetary decisions.

Although GAO agrees with recommendations for the development of arrangements with other government agencies to meet ORS civil rights responsibilities and legislative revision of public participation requirements, it does not agree that these actions could permit the staffing changes and subsequent reductions in ORS' operating expenses suggested.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that the Director of ORS has the authority to restructure the Civil Rights Division. ORS

is statutorily authorized to enter into cooperative agreements with state and other federal agencies to investigate civil rights complaints. The agency currently has such agreements with two federal and two state agencies and is working towards arrangements with other entities.

GAO also agrees with the PPSSCC that Congressional action would be needed to revise the revenue sharing act's public participation requirements. The 1983 amendments to the Act eliminated the requirement for the initial hearing on the possible uses of revenue sharing funds.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO believes that the PPSSCC's estimated savings are not reasonable, given the practical and legal limits on the extent to which ORS civil rights responsibilities could be delegated or public participation compliance assumed. Although ORS is able to enter into cooperative agreements with state and other federal agencies, it does not have the authority to delegate the final decision as to whether a recipient government has violated the Act. This decision, which leads to fund suspension, is to be made by the ORS. Further, development of state agency agreements is limited because some states do not have civil rights agencies,or those that exist lack necessary resources, expertise, or authority under state statutes. Also, revising the hearing requirement was not intended to diminish public participation in decisions made on the use of revenue sharing funds. Reflecting GAO's position, Congress retained the requirement for the second hearing, and ORS must still ensure recipient compliance.

V. RELEVANT GAO REPORTS

GAO/GGD-81-9	The Revenue Sharing Act's 1976 Amendments: Little Effect On Improving Administration and Enforcement of Nondiscrimination Provisions (Dec. 10, 1980)
GAO/GGD-80-41	Compliance With Requirements To Hold Hold Public Hearings On Use of Revenue Sharing Funds (Mar. 25, 1980)

VI. GAO CONTACT

Bill Gadsby 275-2854

JUST 4: USE OF PARALEGALS

I. PPSSCC ISSUE AND SAVINGS

"Can greater use of paralegals in legal research, litigation support, and other legal activities not requiring the skill of a lawyer increase productivity and cost-efficiency in the Department of Justice (DOJ)?"

The PPSSCC estimates that, by using paralegal specialists to perform selected tasks currently performed by Justice attorneys, and by bringing the ratio of attorneys to paralegals in line with private sector law practices, Justice can realize 3-year savings of $13.4 million.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO agrees that using more paralegals could reduce costs by increasing efficiency and productivity. Justice could also enhance its effectiveness if paralegals assumed more of the nonlitigative functions handled by attorneys. For example, GAO previously reported that, according to Justice officials, litigation in support of the Voting Rights Act had been limited because of, among other reasons, priority demands on attorney resources for handling nonlitigative functions, such as preclearance reviews and election coverage activities. GAO recommended that Justice expand paralegals' responsibilities, where possible, to allow attorneys greater opportunity for litigation.

GAO's audit work indicates, however, that Justice needs better measurement data before following through, department-wide, on the specific PPSSCC proposals to increase the ratio of paralegals to attorneys, raise the personnel ceiling on paralegals, hire paralegals under excepted service status, and establish an office to coordinate efforts throughout Justice to increase paralegals' use.

The PPSSCC's principal recommendation calls for Justice to increase the ratio of paralegals to attorneys to approximate the practices of private sector law firms and other government agencies. However, the PPSSCC's data on private sector practices was essentially limited to a law journal article reporting on a public accounting firm's survey of average-size law firms. Such firms were not defined, and Justice officials maintain that a flat comparison is inappropriate. Further, while the overall

ratio of attorneys to paralegals was lower for the other federal agencies cited in the PPSSCC study, 8 of the 11 agencies had a higher ratio than Justice.

The evaluation staff of Justice's management division has taken the position that work flow analysis is needed before increasing the number of paralegals. The staff believes that without an analysis of work flow, any claims as to appropriate paralegal-to-attorney-staffing ratios are questionable. GAO's ongoing review of Justice's management practices indicates that the legal divisions and offices of U.S. attorneys generally lack sufficient work measurement data and have no explicit criteria for utilizing paralegals and for setting paralegal-to-attorney-staffing ratios.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

An increase in personnel ceilings and change in hiring status would require approval by OMB and OPM, respectively. Justice, however, can change its ratio of attorneys to paralegals administratively as long as it does not exceed its overall personnel ceiling. GAO agrees with the PPSSCC view that Justice, under its existing authority, could establish a paralegal coordination office.

The Attorney General has stated that the Department of Justice is working to more effectively use paralegals and has requested direct hire authority from OPM. GAO noted, however, that the Department's fiscal year 1985 budget request provides, in effect, for an increase in the ratio of attorneys to paralegals. According to Justice officials, it is unknown when the work flow and measurement efforts recommended by the management division will be undertaken department-wide. This matter is being considered.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO's analysis indicates that the PPSSCC savings estimate of $13.4 million over a 3-year period is optimistic. The estimate is based, among other things, on reducing the number of attorneys for each employed paralegal from eight to five in the legal divisions and offices of U.S. attorneys. As noted earlier, an adequate basis has not been developed for asserting that a ratio of five attorneys to one paralegal is appropriate. Justice officials, however, agree that cost savings are possible through replacing attorneys with paralegals. In an April 1984 letter to OPM, the Attorney General estimated that expanding the use of paralegals could save as much as $8 million over the next few years.

V. RELEVANT GAO REPORTS

GAO/GGD-78-19 Voting Rights Act--Enforcement Needs Strengthening (Feb. 6, 1978)

VI. GAO CONTACT

Arnold Jones 275-8389

I. PPSSCC ISSUE AND SAVINGS

"Can the Department of Justice (DOJ) use automated legal support systems to improve the availability of information necessary to plan and manage litigation, to allocate more cost-effectively its resources, and to handle its ever-increasing volume of cases?" The PPSSCC estimated that improved operating efficiencies and litigation management techniques would result in a 3-year savings of $37.3 million.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO agrees with the PPSSCC findings on this issue. The issue is a standard objective of many automation projects and is certainly applicable to DOJ's litigation activities. The DOJ initiated automated legal support system efforts in most of its litigating divisions and the U.S. Attorney's Office before the PPSSCC made its recommendations. Some of the original efforts, such as those of the U.S. Attorney's, date back to the early 1970s. However, as pointed out in the GAO report, Department of Justice Case Management Information System Does Not Meet Departmental or Congressional Information Needs (GAO/GGD-83-50, 3/25/83), the systems have not been able to provide management with useful and/or reliable data.

GAO also agrees in principle with the PPSSCC recommendations dealing with the implementation of coordinated system development efforts in the automated legal support systems area, enhancement of automated data processing (ADP) planning activities, improvement in management of ADP services provided by the Justice Management Division, and the establishment of an advisory committee for automated legal support systems. GAO has no basis to judge the remaining PPSSCC recommendation on the establishment of procurement procedures to expedite the acquisition of services.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that implementation of this issue can be done under existing DOJ authority. The issue and associated recommendations are feasible. The issue "to improve information availability through automation" is a basic goal of most automation efforts, and the recommendations can be implemented at the discretion of DOJ management.

GAO is not able to comment on DOJ's overall actions to implement the PPSSCC recommendations. However, as part of its agency management review work, GAO noted that DOJ (1) is

beginning to implement, or has implemented, several automated support systems in its litigating divisions; (2) set up a task group on Information Technology and Law Enforcement to review the case management systems; and (3) is scheduled to have a departmentwide ADP planning process in place by FY 1987.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO has not independently analyzed PPSSCC's savings estimate. However, in DOJ's response to questions from the House Appropriations Committee on its FY 1985 budget, it revised the PPSSCC's 3-year $37.3 million savings estimate downward to $18.7 million.

V. RELEVANT GAO REPORTS

GAO/GGD-83-50 Department of Justice Case Management Information System Does Not Meet Departmental or Congressional Information Needs (Mar. 25, 1983)

VI. GAO CONTACT

James Watts 275-3455

JUST 2: ASSET SEIZURE AND FORFEITURE

I. PPSSCC ISSUE AND SAVINGS

"Can the Department of Justice provide more efficient management and control of its seized asset inventory from the point of seizure through disposition after forfeiture?

Cash accelerations from implementing the recommendations are estimated to be $86.9 million in the first year, $95.6 million in the second year, and $61.7 million in the third year for a three-year cumulative cash acceleration of $244.2 million. Interest savings are expected to be $8.7 million in the first year, $19.1 million in the second year, and $22.0 million in the third year for a cumulative three-year savings of $49.8 million."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO agrees with the PPSSCC's proposal to more effectively manage seized assets. The PPSSCC's findings resulted in five recommendations. The first four recommendations address problems with the seizure and forfeiture of property that GAO had analyzed in prior reports. GAO's recommended solutions included using administrative forfeiture more frequently to expedite disposal and managing storage and disposal better to prevent the deterioration of seized assets and the loss of revenue.

The PPSSCC's fifth recommendation concerns seizures of cash, a subject that was also addressed in a prior GAO report (GGD-76-105). Seizing agencies hold cash as evidence until the case is closed, whether by coming to trial or by being dismissed. Since the seized cash is not deposited in the U.S. Treasury, interest is lost. GAO has maintained that a certified list of serial numbers and photocopies of money would constitute admissable evidence in such cases, a procedure that would enable the seizing agencies to deposit seized cash in the U.S. Treasury.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The Department of Justice and Congress have taken actions to implement certain portions of the PPSSCC recommendations. Justice has issued a forfeiture guide to Drug Enforcement Administration agents which outlines the detailed process of seizing and forfeiting criminal assets, and Justice is studying the feasibility of establishing a single unit to handle seized assets. On October 12, 1984, the Comprehensive Crime Control Act of 1984 was enacted establishing funding for better management of seized assets and increasing to $100,000 the value of

seized assets that can be administratively forfeited. These moves should significantly expedite the forfeiture of many assets.

As to the fifth recommendation on cash seizures, both the courts and the attorneys need to agree to GAO's proposed procedure before it can be implemented since many attorneys prefer to display actual cash as evidence. No firm Justice policy has been established requiring cash deposits upon seizure.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC's estimates for dollar savings from implementing its proposal are accurate given the stated assumptions. GAO has not been able, however, to verify the total cash seizures for 1982, which are shown as $79 million. If the average length of time cash seizures are held before being forfeited or returned is 2 years, as stated, then the Treasury is losing 2 years worth of interest on this money.

The actual computation of a 3-year savings of $49.8 million may be high, depending upon the seizure amounts, forfeiture time, inflation, and interest rates. However, in GAO's opinion the underlying analysis is correct.

V. RELEVANT GAO REPORTS

GAO/PLRD-83-94	Better Care and Disposal of Seized Cars, Boats, and Planes Should Save Money and Benefit Law Enforcement (July 15, 1983)
GAO/GGD-81-51	Asset Forfeiture--A Seldom Used Tool in Combatting Drug Trafficking (Apr. 10, 1981)
GAO/GGD-76-105	Drugs, Firearms, Currency, and Other Property Seized by Law Enforcement Agencies: Too Much Held Too Long (May 31, 1977)

VI. GAO CONTACT

Arnold Jones 275-8389

CHAPTER 5

NATURAL RESOURCES AND COMMUNITY DEVELOPMENT PROGRAMS

The PPSSCC made numerous recommendations for reducing federal expenditures in the natural resources and community development program areas. These areas encompass such diverse federal operations as environmental protection, agriculture and food assistance, energy research and development, federal land and water management, housing and community development, and transportation systems and policies. This chapter deals with 79 specific PPSSCC issues relating to these areas, representing about $43 billion in PPSSCC savings estimates.

Of the 79 issues, GAO found overall merit in 63 although it often questions the feasibility of implementing the PPSSCC's specific recommendation or has no basis for judging the reasonableness of the PPSSCC savings estimates. For the remaining 16 issues, GAO questions the merits of 14 and provides some information on two without taking a position on their merits. GAO also found that 43 of the 79 issues would require some type of legislative action to implement fully.

AG 1: PROMOTE LOAN GRADUATION FOR EACH NEW FMHA LOAN BOOKED

I. PPSSCC ISSUE AND SAVINGS

The PPSSCC said that the loan obligations and related costs of the Farmers Home Administration (FmHA), U.S. Department of Agriculture (USDA), "should be reduced by implementing a policy of matching each new loan refinanced from the private sector with the 'graduation' of an existing FmHA loan" under the Farm Ownership, Farm Operating, Emergency Disaster, and Single Family Housing Programs. According to the PPSSCC, $4.6 billion in budgeted new lending for the four programs in the first year could be offset by graduation of existing FmHA loans. The PPSSCC said that

> "By eliminating Government-financed subsidies on these graduated loans, interest expense would be reduced * * * and administrative costs * * * could be avoided, for a savings of $767.9 million over three years."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

FmHA has primary responsibility for administering loan and grant programs to rural Americans. Over the past 10 to 15 years, FmHA has shown exponential growth in the number of borrowers and loans outstanding. As of June 30, 1982, FmHA had about $58 billion of outstanding loans (up from $6.5 billion in 1970) to 1.5 million borrowers. About 1.2 million loans were outstanding in the Farm Ownership, Farm Operating, Emergency Disaster, and Single Family Housing Programs.

Under several FmHA programs, loans are to be made to eligible borrowers who are unable to obtain suitable credit elsewhere, so that they may continue their operations and return (graduate) to private sources of credit as soon as possible. Graduation covenants for this purpose are contained in the security agreements and promissory notes FmHA uses for these borrowers.

The PPSSCC proposed that FmHA declare an agencywide policy of matching each new loan booked with the graduation of an existing FmHA loan to a private sector lender. According to the PPSSCC, this was to be on a loan-for-loan basis, regardless of dollar amount, and should apply to the Farm Ownership, Farm Operating, Emergency Disaster, and Single Family Housing Programs. Other recommendations on the issue were directed toward providing FmHA field personnel with maximum incentive to implement this policy.

FmHA responded that as a lender of last resort, FmHA would be greatly handicapped by such a policy in serving

eligible applicants according to the intent of the Congress. FmHA believes that it would be highly inequitable to deny an FmHA loan to a fully eligible applicant unless an existing borrower could be found who would qualify for and accept a private sector loan. Furthermore, FmHA questions whether private sector lenders will be willing to share the government's financial burden of providing credit for rural FmHA borrowers.

GAO supports the concept of loan graduation. In 1966, GAO reported (GAO/B-114873, 5/26/66) that the effective implementation of FmHA's graduation instructions would free substantial amounts of federal funds invested in loans to certain borrowers for use in FmHA's current loan operations or for paying to the U.S. Treasury to reduce FmHA's prior borrowing. However, GAO has not analyzed the potential impact of the specific PPSSCC recommendation for a one-to-one loan graduation.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC indicates that the Administrator of FmHA has the authority to implement these recommendations. FmHA has stated that implementation of this proposal is not consistent with current agency program intent. However, the U.S. Department of Agriculture's implementation status report dated October 3, 1984, said that the PPSSCC proposal was being reviewed for further consideration.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO has not done any recent audit work regarding FmHA's loan graduation experience and therefore cannot assess the validity of the PPSSCC's savings estimate.

V. RELEVANT GAO REPORT

GAO/B-114873 Review of Efforts to Have Borrowers Refinance Their Government Loans When Private or Cooperative Credit Becomes Available (May 26, 1966)

VI. GAO CONTACT

Brian Crowley 275-5138

AG 15: REDUCE COMMODITY DISTRIBUTION AND WAREHOUSING COSTS

I. PPSSCC ISSUE AND SAVINGS

According to the PPSSCC,

"The Department of Agriculture (USDA) should (1) negotiate long-term warehouse storage rates and (2) * * * [allow] vendor bids on Agricultural Marketing Service (AMS) commodity purchases * * * on a Freight on Board (FOB) origin and/or FOB destination [basis]. The Department will save * * * $36.1 million over three years."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

Conventional USDA contracts for storage of dairy products are negotiated on a per-unit actual use basis. That is, USDA is not required to maintain a minimum inventory nor occupy a minimum amount of space. According to the PPSSCC, lower storage rates could be negotiated by USDA if the products were stored under long-term arrangements. The reason for this is that warehouses should be willing to negotiate lower per-unit storage rates if USDA would guarantee them a minimum usage level for a specified time. Accordingly, the PPSSCC recommended that 2- to 5-year dairy storage contracts be negotiated at a level commensurate with official USDA estimates of purchases. GAO has not reviewed the merits of this PPSSCC recommendation. According to USDA, it implemented this recommendation in June 1982. Further, USDA said that it had about 100 million pounds of cheese under extended storage contract as of July 1984 and that it would consider using extended storage contracts for securing additional space.

The PPSSCC also recommended that AMS allow bids on an FOB origin and/or FOB destination basis. In a July 1981 report on USDA's commodity donation program (GAO/CED-81-83, 7/9/81), GAO recommended that USDA monitor the FOB-destination procurement of fruits and vegetables for the needy family program and, where cost justified, expand such procurements to other commodity donation programs. In following up on this matter, GAO found that USDA had expanded its use of FOB-destination procurements since July 1981; however, GAO has not done any recent audit work to determine whether such procurements could be expanded further. In its implementation status report dated October 3, 1984, USDA said that the PPSSCC recommendation was modified and implemented in July 1984. USDA said that the proposal would be adopted for all its red meat purchases.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

As discussed above, USDA has taken some actions on each of the two PPSSCC recommendations. GAO has no basis, however, on which to judge whether it is feasible to expand the actions taken by USDA to other commodities.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

In its October 3, 1984, implementation status report, USDA said that because current long- and short-term storage rate differences are minimal, there are no substantive savings from entering into the long-term storage contracts for dairy products. It said that savings will be realized if stocks continue to accumulate and storage space becomes tighter. For both recommendations under this issue, USDA estimated a 3-year savings of $1.4 million, compared with the PPSSCC's estimate of $36.1 million. Because GAO has not done any recent audit work on either long-term warehouse storage rates or freight costs on commodity purchases, it cannot assess the reasonableness of the PPSSCC's or USDA's savings estimates.

V. RELEVANT GAO REPORT

GAO/CED-81-83 More Can Be Done to Improve the Department of Agriculture's Commodity Donation Program (July 9, 1981)

VI. GAO CONTACT

Brian Crowley 275-5138

AG 16: POULTRY SLAUGHTER INSPECTION

I. PPSSCC ISSUE AND SAVINGS

According to the PPSSCC,

"Federal appropriations for postmortem poultry inspection can be reduced while maintaining or increasing the effectiveness of such inspection * * * and the savings would be $307.8 million over three years."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The law requires the U.S. Department of Agriculture (USDA) to inspect the slaughter of poultry and the processing of poultry products shipped interstate or to foreign markets to ensure that consumers are receiving wholesome, unadulterated, and properly marked, labeled, and packaged products. The PPSSCC recommended that (1) postmortem poultry inspection be performed by plant personnel in plants meeting USDA criteria on quality, technology, cleanliness, and management commitment, (2) where plants are determined to be incapable of assuming inspection responsibility, USDA perform the inspection and assess user charges to recover its costs, and (3) significant penalties be imposed should USDA find inadequate inspection by plant employees.

The purpose of inspection is to protect consumers from infectious disease and toxins which may be transmitted to humans through the handling or consumption of meat or poultry. While GAO has recommended that the Congress require meat and poultry processing plants to develop and implement quality control systems of their own (GAO/CED-78-11, 12/9/77), GAO has not expressed a similar position on having slaughtering plants assume more responsibility. Slaughter inspection is done to protect the health of the consuming public and this has generally been considered the federal government's responsibility.

On user charges, GAO believes that charging fees to offset the cost of goods, services, and privileges that the federal government provides to identifiable recipients is appropriate. However, GAO continues to hold the position it took in an April 1981 report (GAO/CED-81-49, 4/16/81) that mandatory meat and poultry inspection services clearly provide a broad public benefit and that it is appropriate to fund the associated federal inspection costs (except for overtime and holiday work) with appropriated funds. Therefore, GAO believes the recommendation is not appropriate.

On penalties, GAO believes it would be logical to impose penalties on a plant if plant employees were not

doing adequate inspections. However, because GAO does not support having slaughtering plants assume more inspection responsibility, the question of penalties in such circumstances would be moot.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

Legislation and new regulations would be needed to implement these PPSSCC recommendations. Although USDA has stated that implementation of this broad sweeping proposal is legislatively infeasible, its implementation status report dated October 3, 1984, said that the recommendations were being reviewed for further consideration.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO has not done any recent audit work that would provide a basis for assessing the reasonableness of the PPSSCC's savings estimate.

V. RELEVANT GAO REPORTS

GAO/CED-81-49	Department of Agriculture Should Have More Authority to Assess User Charges (Apr. 16, 1981)
GAO/CED-78-11	A Better Way for the Department of Agriculture to Inspect Meat and Poultry Processing Plants (Dec. 9, 1977)

VI. GAO CONTACT

Brian Crowley 275-5138

AG 17: INTENSITY OF MEAT/POULTRY INSPECTION

I. PPSSCC ISSUE AND SAVINGS

The PPSSCC said that

"By giving the Secretary of Agriculture discretion * * * [to determine] the intensity of inspection of meat [and poultry and egg products] processing operations, a saving of * * * $27.7 million [could be realized over] * * * three years."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

Federal law requires the U.S. Department of Agriculture (USDA) to inspect slaughter and processing of livestock and poultry products that are shipped interstate or to foreign markets. The purpose of the inspection is to ensure that consumers are receiving wholesome, unadulterated, and properly marked, labeled, and packaged products. USDA also is required to inspect egg product processing plants. The PPSSCC's analysis focused principally on meat and poultry processing inspection because USDA employed substantially more resources on them than on egg products. USDA has determined that the Federal Meat Inspection Act and the Poultry Products Inspection Act require continuous USDA inspection in most processing plants for all meat and poultry products prepared for commerce. The PPSSCC believes that less-than-continuous USDA inspection at processing plants can be a more effective and efficient method of ensuring the safety and wholesomeness of processed products.

GAO believes that overall this issue has merit. Also, GAO agrees with the specific PPSSCC recommendation that USDA inspection resources could be used more efficiently and effectively if the inspection frequency of processing plants were tailored to the inspection needs of individual plants. GAO has recommended action to allow periodic unannounced inspections of meat and poultry processing plants and endorsed efforts to have processing plants develop and implement quality control systems. (See GAO/CED-78-11, 12/9/77.)

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

USDA's implementation status report dated October 3, 1984, stated that USDA had developed legislation to be pursued. The Congress has not passed earlier legislative proposals to amend the inspection acts to authorize USDA to determine the degree of inspection primarily because of concerns about the effect on public food safety.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

In its October 3, 1984, implementation status report, USDA estimated 3-year savings of $20.4 million, or $7.3 million less than the PPSSCC estimate. GAO has not done any recent audit work that would provide a basis for assessing the reasonableness of either the PPSSCC's or USDA's savings estimates.

V. RELEVANT GAO REPORTS

GAO/CED-81-49	Department of Agriculture Should Have More Authority to Assess User Changes (Apr. 16, 1981)
GAO/CED-78-11	A Better Way for the Department of Agriculture to Inspect Meat and Poultry Processing Plants (Dec. 9, 1977)

VI. GAO CONTACT

Brian Crowley 275-5138

AG 19: PRIOR APPROVAL OF LABELS

I. PPSSCC ISSUE AND SAVINGS

According to the PPSSCC,

"Federal appropriations for the regulation of the marketing and labeling of meat and poultry products can be reduced, while maintaining or increasing the effectiveness of such regulations, by replacing premarket approval with preuse filing of labels. Budget savings * * * could be * * * $4 million * * * [over] three years. More substantial savings would accrue to the industry and consumers."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

Federal law requires the U.S. Department of Agriculture (USDA) to review and approve labels before they can be used on meat and poultry products shipped in interstate commerce. GAO agrees that the label approval process could be made more efficient and still adequately accomplish its objective--assurance that products are not misbranded or labeled misleadingly. GAO pointed out the need to purge the premarket approval system of duplicate reporting and red tape in a 1980 report (GAO/GGD-80-14, 3/10/80). In June 1983 USDA streamlined the process by granting its supervisory plant inspectors authority to handle routine label approvals. Although preuse approval is still required, immediate inspector approval can now be obtained on the spot in most cases.

GAO agrees that the PPSSCC's recommended procedures (authority to use the label immediately and automatic approval unless disapproved by a certain time) would be similar to the process that the Food and Drug Administration uses to ensure proper branding and labeling of most other food products. The PPSSCC's argument that plant inspectors could immediately review and spot any serious problems with new or revised labels seems reasonable; thus, GAO agrees that the PPSSCC's recommended procedures likely would not result in any perceptible decline in public protection.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees that the recommended changes could be implemented administratively. As of September 28, 1984, USDA, with the concurrence of the White House Office of Cabinet Affairs, had put this recommendation on hold because, according to a USDA official, the agency's revised premarket system is already providing timely label approval (1 to 3 days in most cases).

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC's estimated savings assume abolishing the Food Safety and Inspection Service's (FSIS') Standards and Labeling Division in Washington and having its responsibilities assigned to FSIS' plant inspectors and field offices. GAO questions the feasibility of field offices absorbing this workload with present staff. Also, besides reviewing and approving labels, the current division develops formal product standards which specify the content and ingredients for processed meat and poultry products--a function that applies nationally and which logically should be performed by a single organizational unit rather than by a number of individual units. GAO also anticipates that a small centralized staff may be needed to handle particularly difficult label approval cases and to ensure uniform label approvals among FSIS field offices. Accordingly, GAO believes that the PPSSCC's estimated savings are overstated.

V. RELEVANT GAO REPORT

GAO/GGD-80-14 Department of Agriculture: Actions Needed to Enhance Paperwork Management and Reduce Burden (Mar. 10, 1980)

VI. GAO CONTACT

Brian Crowley 275-5138

AG 21: REDUCE PRICE SUPPORTS FOR DOMESTIC COMMODITY PROGRAMS

I. PPSSCC ISSUE AND SAVINGS

According to the PPSSCC,

> "Farm price support programs should be restructured to reduce anticipated outlays and more effectively meet program objectives. Some * * * [$13 billion] in anticipated outlays can be saved * * * over three years * * * by eliminating target prices, reducing support levels on major crops, and capping Farmer-Owned Reserve * * * quantities at reasonable levels. These and other actions * * * would effectively redirect the Government's role in the farm economy from one of maintaining farm incomes to one of providing a safety net for producers in the event of substantial, sharp, short-term market declines. Current proposals are stopgap measures. Long-term solutions are needed to keep U.S. agriculture the world leader. This issue's savings are not included in the [PPSSCC] Task Force totals, since much debate will take place before changes are made. Further, the in-depth analysis needed to fully support specific legislative changes could not be completed [by the PPSSCC] in the brief time available."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATION

The PPSSCC recommended that the entire issue of restructuring farm programs to provide farmers with a safety net should be further studied by both the administration and the Congress to determine whether the potential savings and related impact on the overall economy justify changes in these programs. According to the PPSSCC, current farm legislation is intended to maintain farmers' income at a modestly comfortable level, well above subsistence. The PPSSCC also said that U.S. efforts to support crop prices may have provided a price umbrella that has encouraged foreign competitors to increase their crop output and capture a greater share of world agricultural trade. The PPSSCC, therefore, believed that an opportunity existed to reduce federal farm subsidies while maintaining adequate food supplies at reasonable prices and providing a "safety net" to protect farmers against disastrously low prices in the event of substantial, sharp, short-term market declines.

GAO believes that, conceptually, this issue and the associated recommendation have merit in that they call for a study of potential changes in a number of aspects of current U.S. Department of Agriculture (USDA) farm programs such as eliminating target prices, reducing price-support levels,

and capping quantities of commodities put under loan in the Farmer-Owned Reserve. All of these measures would have the effect of significantly reducing federal outlays. These programs have been among the fastest growing areas of USDA's budget. However, because the changes suggested by the PPSSCC are very complex and will have a major impact on the agricultural economy, a great deal of debate will have to take place before changes are made. Accordingly, a study by the administration and the Congress seems warranted.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

Fundamental changes in domestic farm program legislation will have to be made before the type of actions suggested by the PPSSCC could occur. The legal framework in which today's farm programs operate has been in place for decades and changes to it will be difficult and time consuming. According to USDA, it has been examining alternative methods of achieving the overall objectives outlined by the PPSSCC and attempting to identify an approach that will be legislatively feasible. In its October 3, 1984, implementation status report, USDA said that this recommendation would be considered in the context of the fiscal year 1985 farm bill.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

While implementing the changes suggested by the PPSSCC would result in a substantial reduction in budget outlays, the $13 billion estimate used in the PPSSCC report (but not included in its summary of savings) is speculative. Achieving savings depends on a number of uncontrollable, interwoven variables that cannot be predicted at this point (e.g., crop yield estimates, domestic and worldwide demand, weather, etc.).

V. RELEVANT GAO REPORTS

GAO/RCED-84-137	Department of Agriculture's Acquisition and Distribution of Commodities for Its 1983 Payment-in-Kind Program (Sept. 25, 1984)
GAO/CED-82-86	Congressional Decision Needed on Necessity of Federal Wool Program (Aug. 2, 1982)
GAO/CED-81-70	Farmer-Owned Grain Reserve Program Needs Modification to Improve Effectiveness (June 26, 1981)

VI. GAO CONTACT

Brian Crowley 275-5138

ASSET 5: INVENTORY REDUCTION

I. PPSSCC ISSUE AND SAVINGS

The PPSSCC stated the issue as follows:

"Should the Government reduce its inventory of commodities held by the Commodity Credit Corporation (CCC) to increase its cash flow?"

According to the PPSSCC, 3-year cumulative cash accelerations of $1.382 billion plus $661.4 million of cost savings have been identified for a total budget impact of $2.0434 billion.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

CCC, a wholly owned government corporation within the U.S. Department of Agriculture (USDA), was created in 1933 to stabilize and protect farm prices and assist in the maintenance of adequate supplies and the orderly distribution of agricultural commodities. In performing these functions, it acquires commodities under price-support programs. The value of rice, wheat, honey, and dairy products owned by CCC as of August 31, 1984, totaled about $6 billion.

The PPSSCC recommended two ways of reducing surplus agricultural commodities owned by CCC. The first is aimed at eliminating interagency conflict in the administration of the Public Law 480 food aid program, with the objective of expediting disposals and thereby reducing surplus inventories by 30 percent. The second is that a designated percentage of food stamps be marked for the specific purchase of dairy products of the type purchased by CCC. The percentage so marked would be adjusted periodically to reflect market conditions as they relate to dairy support prices.

Several GAO reports have highlighted the need to make the Public Law 480 interagency decisionmaking process more efficient so that decisions could be expedited. The thrust of these concerns has related to the humanitarian and developmental aspects relating to developing countries. A 1979 report (GAO/ID-79-25, 10/15/79) recommended that the development agency (International Development Cooperation Agency) be given responsibility and authority for the grant portion of the Public Law 480 program, including the appropriation, determining commodity selection and procurement in consultation with USDA, and reporting on program results to the Congress. A 1980 report (GAO/ID-80-13, 2/1/80) recommended that the development agency be given final responsibility--not subject to veto by other agencies but in consultation with the other agencies--to carry out the multiyear developmental aspects of the program.

Regarding the PPSSCC proposal to designate a percentage of food stamps for dairy product purchase, GAO believes that although the PPSSCC proposal may generate savings for the federal government, a number of issues need to be examined before adopting such an approach. These include dietary requirements and existing programs designed to reduce CCC dairy inventories. Also, as discussed in section III, the proposal would require considerable administrative effort to implement. From a nutritional perspective, dairy products contain relatively high levels of saturated fats and salts and hence the designated use of dairy products under the food stamp program might not be compatible with some individuals' dietary requirements. Many food stamp recipients, particularly the elderly, may be on low-cholesterol and/or low-salt diets. As a result, such individuals may not be able to use the designated dairy coupons to purchase butter, cheese, and nonfat dry milk.

The Congress has already taken steps to help reduce the government's dairy surplus inventory. The Dairy Production Stabilization Act of 1983 (Title I of Public Law 98-180) enacted November 29, 1983, among other things, authorized a 15-month milk diversion program under which farmers will be paid $10 per hundredweight of milk marketing reductions. The act also reduced the price-support level by 50 cents and requires all producers to be assessed 50 cents per hundredweight of milk marketings to help finance the program. These actions have curtailed production and, coupled with increased consumption, are reducing the government-owned inventory of dairy products. Further, the administration has targeted the dairy price-support program for major cuts which, if approved by the Congress, would further reduce production and government-owned inventories.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

Efforts to streamline the Public Law 480 decisionmaking process are constrained by budget implications for the respective agencies, commodity availability and composition, foreign indebtedness to the United States, and foreign policy considerations. Also, substantial increases in commodities to developing countries would require consideration of the potential disincentive effect on local developing country production and the efforts of such countries to alleviate their basic food problems. Legislative requirements relating to U.S. commercial exports and normal patterns of trade with other countries also would be a consideration.

To implement the PPSSCC recommendation on designating food stamps for dairy products, the Congress would have to modify food stamp legislation which currently allows food stamp recipients to purchase any combination of eligible

food items. As discussed previously, however, GAO has concerns, because of the dietary issue and recent congressional initiatives, about the feasibility of such an approach for reducing the federal inventory of dairy products. In addition, GAO believes that considerable administrative effort would be required by USDA, the states, and retail grocery stores authorized to accept food coupons as payment.

The answer to how long it would take or how much it would cost to put this practice into effect depends greatly on the sophistication of the systems ultimately adopted. GAO believes that there would be some increased administrative costs because USDA would need to obtain coupons designated for the purchase of specific dairy items; the states would have to make sure that each household received the proper mix of these specific-use and general food coupons; and grocery stores would have to enforce these program regulations by not accepting dairy coupons for nondairy products just as they are prohibited from accepting food coupons for items such as tobacco, alcohol, cleaning, and paper products. GAO believes that general and specific-use categories would create more accounting requirements and additional enforcement needs. As of September 28, 1984, USDA had this recommendation on hold because, in its judgment, it is not feasible.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO believes that the PPSSCC proposal to designate a percentage of food stamps for purchasing dairy products would result in savings, but it has no basis for determining the amount. On the Public Law 480 recommendation, GAO has not done any recent audit work that would enable it to assess the reasonableness of the PPSSCC's savings estimate. The Congressional Budget Office stated in the joint CBO/GAO February 1984 study that it estimates that implementation of the food stamp proposal would result in savings of $495 million over the 1985-89 period, while the Public Law 480 recommendation would result in no additional savings.

V. RELEVANT GAO REPORTS

GAO/RCED-84-24	Conditions That Limit Using Barter and Exchange to Acquire National Defense Stockpile Materials (Oct. 19, 1983)
GAO/ID-81-32	Food for Development Program Constrained by Unresolved Management and Policy Questions (June 23, 1981)
GAO/ID-80-13	Coordinating U.S. Development Assistance: Problems Facing the International Development Cooperation Agency (Feb. 1, 1980)

GAO/ID-79-25 Changes Needed in the Administration of the Overseas Food Donation Program (Oct. 15, 1979)

VI. GAO CONTACT

Brian Crowley 275-5138

AG 22: ELIMINATE DONATIONS MADE TO OTHER AGENCIES

I. PPSSCC ISSUE AND SAVINGS

According to the PPSSCC,

"Commodity Credit Corporation (CCC) donations to other Government agencies should be limited or eliminated. By eliminating discretionary donations and requiring other agencies to use appropriated funds to purchase commodities from CCC, greater accountability will be established and an estimated * * * $1,204.8 million [will be saved] over three years."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

CCC, a wholly owned government corporation within the U.S. Department of Agriculture (USDA), was created in 1933 to stabilize and protect farm prices and assist in the maintenance of adequate supplies and the orderly distribution of agricultural commodities. In carrying out these functions, CCC acquires commodities under price-support programs. CCC receives an annual appropriation for reimbursement of its net realized losses which, among other things, includes the cost of acquired commodities that it donates for use by other agencies such as the Food and Nutrition Service and the Veterans Administration. In fiscal year 1984, CCC domestic donations totaled an estimated $1.5 billion, of which about $1.4 billion was for dairy products (cheese, butter, and nonfat dry milk).

GAO has advocated to the Congress, as a general policy, the need for accounting for costs by program and for the Congress to maintain strict budgetary control over funds spent by government agencies. Consistent with this position, GAO believes that the PPSSCC proposal that agencies be required to reimburse CCC for any surplus commodities received would improve accountability. At present, the costs of recipient agency programs are understated because the CCC products are provided free to those programs. Also, as pointed out by the PPSSCC, the Congress appropriates funds to cover CCC losses after they occur. This is an exception to the regular federal budgetary process.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

As stated by the PPSSCC, the Secretary of Agriculture, under existing executive authority, could require that CCC be reimbursed by agencies for the value of products transferred. However, GAO believes that because the implementation of this requirement would be a significant change from what is currently done, the Secretary should seek the advice

and counsel of appropriate congressional committees before taking any action on the recommendation.

According to USDA officials, USDA and the Office of Management and Budget plan no action on the PPSSCC proposal because, in their opinion, it is "legislatively infeasible."

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC said that CCC would realize savings in the amount of the cost of future donations. It recognized, however, that these expenses would be incurred by other government agencies to the extent that these amounts are directly appropriated and that the savings would be partially offset in increased CCC storage costs. The PPSSCC savings estimate is based on the assumption that, when the true cost of donations is known, the Congress will reduce donations by about 50 percent. Although GAO has no opinion on the PPSSCC's estimated savings amount, it believes that implementation of the proposal would result in savings only if it spurred action to reduce government purchases of surplus products.

In commenting on the PPSSCC proposal, the Congressional Budget Office (CBO) stated in the joint CBO/GAO February 1984 study that although the proposal might enhance the agencies' accountability to the Congress, it offers no potential for budgetary savings. CBO stated that reimbursement to CCC would merely be an intragovernmental transfer, not a reduction in total budget outlays, and that federal expenditures for CCC purchases would still occur.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

Brian Crowley 275-5138

AG 35: USDA COUNTY OFFICE STRUCTURE

I. PPSSCC ISSUE AND SAVINGS

According to the PPSSCC,

"The structure of the Department of Agriculture (USDA) county offices can be improved to reduce cost and improve effectiveness by collocating and consolidating the Agricultural Stabilization and Conservation Service (ASCS), the Soil Conservation Service (SCS), and [the] Farmers Home Administration (FmHA) local offices. Responsibility for local conservation efforts, currently shared between state/local personnel and Federal personnel, should, except for Federal District Conservationists, be assumed by state/local resources. An estimated * * * $193.8 million [could be saved] over three years."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC reported that, as of May 1982, USDA agencies had offices in 3,017 of the nearly 3,100 counties in the United States and Puerto Rico. In 2,965 of these counties, two or more USDA agencies had offices. The three agencies discussed under this issue--ASCS, SCS, and FmHA--had 2,838, 2,972, and 1,965 county offices, respectively. The PPSSCC's working appendix showed that as of that same date, ASCS, SCS, and/or FmHA field offices were fully colocated (that is, located together in the same building) in 1,914 of the 2,965 counties in which two or more USDA agencies had offices. Also, USDA field offices were partially colocated in 673 counties, leaving 378 multi-agency-office counties without colocated offices.

The PPSSCC recommended that USDA more aggressively pursue colocating ASCS, SCS, and FmHA county offices and that USDA be allowed a special exemption from Executive Order 12072, which provides that first consideration in locating federal office space be given to central business districts in urban centers. These recommendations correspond to recommendations in an April 1979 GAO report (GAO/CED-79-74, 4/25/79).

In that report, GAO said that substantial potential existed for additional colocation of USDA field offices, and it recommended several actions for increasing colocation efforts and for solving conflicts between USDA and the General Services Administration over the location of field offices (e.g., the outskirts of towns and cities versus the central business districts of urban centers) and over the length of leases (i.e., long-term versus 1-year leases). However, since its 1979 report, GAO has not reviewed the

extent of colocation or the operation of Executive Order 12072 relative to USDA field offices. Also, GAO has not reviewed the other matters on which the PPSSCC offers recommendations under this issue--consolidating ASCS offices to eliminate small offices (those whose normal annual workload equates to three or fewer full-time equivalent personnel) and phasing out all SCS conservation technical assistance below the level of district conservationist.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

According to the PPSSCC, USDA has authority to colocate ASCS, SCS, and FmHA county offices and consolidate ASCS offices; the President has authority to allow USDA a special exemption from Executive Order 12072; and congressional authority would be needed to phase out SCS conservation technical assistance below the level of district conservationist. GAO agrees with the PPSSCC's assessment on the first two matters. On the third matter, GAO believes that while legislative action may not be necessary to phase out SCS conservation technical assistance below the level of district conservationist, congressional approval may be appropriate because of ongoing congressional interest.

USDA's implementation status report dated October 3, 1984, as supplemented by GAO's discussions with USDA officials, indicates that USDA plans to deal with the colocation and consolidation issues but that USDA strongly disagrees with phasing out conservation technical assistance below the district conservationist level. According to USDA, the recommended change in conservation technical assistance would severely weaken the national effort of conserving soil and water resources and would be so drastic that it would compromise the National Program for Soil and Water Conservation that the President sent to the Congress in December 1982. USDA also said that similar proposals had been made during the process leading to adoption of the President's National Conservation Program and that, on the basis of studies and public comments at that time, it had rejected the idea as impractical. USDA said it still considers the proposal impractical and harmful to the nation's conservation effort.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

Because GAO has not done any recent audit work on the matters covered in this issue, it cannot assess the reasonableness of the PPSSCC's savings estimate.

V. RELEVANT GAO REPORT

GAO/CED-79-74 Colocating Agriculture Field Offices--More Can Be Done (Apr. 25, 1979)

VI. GAO CONTACT

Brian Crowley 275-5138

AG 51: CREATE NATIONAL BOARD OF AGRICULTURE

I. PPSSCC ISSUE AND SAVINGS

According to the PPSSCC,

"National objectives and missions for agricultural research should be established by organizing a National Board of Agriculture. Re-alignment of the present regions [from the four regions into which state agricultural experiment stations are divided to nine regions based on differences in agricultural environmental conditions] is also suggested. * * * savings would be * * * $251.5 million over three years."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

In 1977 the Congress assigned the U.S. Department of Agriculture (USDA) lead agency responsibility for agricultural research, and in 1981 it mandated that USDA perform a food and agricultural needs assessment as a first step in such planning. USDA has assigned this task to the Joint Council on Food and Agricultural Sciences. The Joint Council was established by the National Agricultural Research, Extension, and Teaching Policy Act of 1977 to, among other things, coordinate and assist the Secretary of Agriculture in carrying out his lead agency responsibilities. According to the PPSSCC, the research activities of the private sector and federal departments other than USDA are not represented in a significant way on the Joint Council.

GAO agrees with the need to establish national objectives and missions for agricultural research as well as the need to undertake long-term planning for such research. In two reports (GAO/CED-81-141, 7/24/81, and GAO/CED-77-121, 8/23/77), GAO discussed the need to improve goal setting, planning, and mission definition in the agricultural research area. However, GAO has not looked into the need for organizing a National Board of Agriculture or for establishing nine geographic regions based on differences in agricultural environmental conditions.

On the matter of realignment, the PPSSCC pointed out that private sector agribusinesses consider the nation in terms of seven to nine regions based on agricultural (soil, crops, livestock, weeds, etc.) differences and it recommended that nine geographic regions be established based on agricultural environmental conditions to replace the four agricultural experiment station regions. GAO has not analyzed this proposal.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

According to the PPSSCC, the recommendations could be implemented by USDA under its existing authority. USDA's implementation status report dated October 3, 1984, stated that the recommendations were being reviewed for further consideration.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC estimated 3-year savings of $248.2 million for creating a National Board of Agriculture. It said that with the setting of national goals and priorities, less appropriate programs could be canceled or funds shifted and greater efficiencies attained within the federal sector of agricultural research and between the public and private sectors' research. The PPSSCC also estimated a 3-year savings of $3.3 million for realigning national agricultural research programs due to an anticipated reduction in USDA's Washington-based staff because management control would be at the activity level rather than at the grantor (Washington) level. GAO has not done any recent audit work that would provide a basis for assessing the reasonableness of the approach and assumptions that the PPSSCC used in computing its estimated savings.

V. RELEVANT GAO REPORTS

GAO/CED-81-141	Long-Range Planning Can Improve the Efficiency of Agricultural Research and Development (July 24, 1981)
GAO/CED-77-121	Management of Agricultural Research: Need and Opportunities for Improvement (Aug. 23, 1977)

VI. GAO CONTACT

Brian Crowley 275-5138

AG 52: REORGANIZE THE AGRICULTURAL RESEARCH SERVICE

I. PPSSCC ISSUE AND SAVINGS

The PPSSCC said that "The Agricultural Research Service (ARS) should be reorganized to strengthen management effectiveness." According to the PPSSCC, this would save "$84.0 million over three years."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

ARS, the principal intramural research agency of the U.S. Department of Agriculture (USDA), carries out basic and applied research projects under 69 broad national research programs at about 150 locations. At the time of the PPSSCC's review, ARS had, in addition to a headquarters office, 13 area directors and 12 directors of major research centers, all located in field offices. The PPSSCC found that ARS' existing organizational structure was inefficient and probably inhibited research activities. According to the PPSSCC, two paramount deficiencies were the lack of congruence between field research programs and national research goals and excessive administrative superstructures. The PPSSCC recommended 12 specific reorganization actions, including elimination or retention of certain offices and staffs and establishment, expansion, or centralization of others. The PPSSCC recognized that its recommendations would have a profound effect on the existing structure.

In a January 1983 report (GAO/RCED-83-20, 1/14/83), GAO recommended that USDA develop and submit to the Congress for review and comment a plan to consolidate agricultural research activities at fewer locations, thereby allowing greater scientist interaction and more efficient use of resources. GAO also commented in that report on the potential to reduce the number of regional and area offices if there were fewer research locations. However, GAO's audit work did not include a review of the 12 individual reorganization actions that the PPSSCC recommended.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC indicated that its recommended changes could be implemented by ARS but would have to be approved by the Secretary. GAO believes that although new legislation is not needed to implement the recommendations, some of the recommendations involving the elimination and establishment of positions and offices will have congressional interest. According to USDA's implementation status report and other documentation, actions have been taken to, among other things, eliminate one layer of administrative management in

the field; reorganize and reduce the headquarters administrative management function; reorganize the information staff; and reorganize regional, area, and center program management units and the national program staff.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC's 3-year savings estimate of $84 million is based on the elimination of administrative, regional, and area office positions over a 3-year period. Because GAO has not analyzed the 12 individual reorganization actions that the PPSSCC recommends, it does not have a basis for assessing the reasonableness of the approach and assumptions that the PPSSCC used in computing its savings estimate. According to USDA, the reorganization actions taken through May 1984 had reduced ARS' overhead costs by about $12 million, with much of the savings being used to increase or directly support research programs.

V. RELEVANT GAO REPORT

GAO/RCED-83-20	Federal Agricultural Research Facilities Are Underused (Jan. 14, 1983)

VI. GAO CONTACT

Brian Crowley 275-5138

AG 55: REDUCE AND REDIRECT THE COOPERATIVE EXTENSION SERVICE WASHINGTON-BASED STAFF

I. PPSSCC ISSUE AND SAVINGS

According to the PPSSCC,

"The role of the Cooperative Extension Service's (CES) headquarters staff should be limited to one of initiating new programs. This will allow a reduction in staff, saving * * * $13.2 million over three years."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATION

CES, an agency within the U.S. Department of Agriculture (USDA), was set up by the Congress in 1914 to transfer technology originating in the state agricultural experiment stations to farmers. It has evolved into a network of youth and adult education serving the needs as expressed by county extension organizations. CES' current organization consists of field as well as headquarters staff components. The field organization is represented by a Director of Extension located at each of the land-grant colleges. The staff organization component consists of a Washington-based Program Development, Coordination, and Evaluation staff numbering 200 people. The principal functions of the national staff are to identify new initiatives and establish pilot projects in appropriate areas and to provide liaison with other federal departments as expressed in 20 interagency agreements.

In an August 1981 report (GAO/CED-81-119, 8/26/81), GAO discussed the need to clarify CES' mission. It also pointed out that USDA's role in providing overall program leadership and guidance was not clear. In February 1983, CES reviewed and restated the role and responsibilities of each of the partners in Cooperative Extension.

According to the PPSSCC, its interviews with program officials confirmed the findings leading to GAO's conclusions. The PPSSCC recommended that USDA reduce and redirect the CES Washington-based staff and listed specific actions that should be taken. These were to (1) eliminate about 50 positions responsible for coordinating state-driven extension programs, (2) redirect the Washington-based staff to develop programs for other federal departments having extension funds, and (3) use the existing land-grant college extension service to administer the non-USDA federal funds, eliminating the inefficiencies associated with a second and smaller "extension" network. GAO has not studied these specific actions.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

According to USDA's implementation status report dated October 3, 1984, and other documentation, actions have been undertaken to, among other things, reduce administrative overhead and consolidate resources through restructuring and reorganization, identify functions and priority program initiatives for federal program leaders, emphasize national leadership rather than program oversight, abolish low-priority positions and functions duplicative of state program efforts, and establish innovative approaches to fulfilling federal responsibilities (which could not be met with established personnel ceilings) through networking with state institutions and position sharing with other USDA agencies.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC's savings estimate assumes that a reduction of 50 in the Washington-based staff would result in a first-year savings of $3 million and that if the remaining staff administered the extension-like funds from other federal agencies, permitting a reduction in staff at the other agencies, an additional $1 million could be saved the first year. The PPSSCC estimated that for years 2 and 3, cost savings would be $4.4 million and $4.8 million, respectively, for a total 3-year savings of $13.2 million. In its implementation status report, USDA estimated that $5.4 million could be saved over 3 years by implementing this recommendation. GAO has not done any recent audit work regarding CES' headquarters staff and therefore it cannot assess the reasonableness of the approach and assumptions that either the PPSSCC or USDA used in computing their savings estimates.

V. RELEVANT GAO REPORT

GAO/CED-81-119 Cooperative Extension Service's Mission and Federal Role Need Congressional Clarification (Aug. 26, 1981)

VI. GAO CONTACT

Brian Crowley 275-5138

AG 56: REDUCE GENERATION AND TRANSMISSION LOAN GUARANTEES

I. PPSSCC ISSUE AND SAVINGS

According to the PPSSCC,

"The Government should begin extricating itself from loans for the generation and transmission (G&T) of power by reducing annual loan guarantees by $1.7 billion by year 3 (i.e., from $4.7 billion annually in 1983 to $3.0 billion annually in 1986). This represents no budget cost savings but does represent a first step in reducing the dependence of Rural Electrification Administration (REA) borrowers on Federal financing. A loan guarantee fee of $3 million should be put into effect as an offset against Agency obligations. Total three-year revenues are $9.9 million."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

REA, a credit agency of the U.S. Department of Agriculture (USDA), was established in 1936 to provide loans to eligible cooperative borrowers and to extend electric service to unserved rural areas. REA moved gradually into making loans to power supply cooperatives, called generation and transmission (G&T) cooperatives, in addition to power distribution cooperatives. Prior to 1973, the annual amount of long-term financing REA provided to power supply borrowers in a single year had not exceeded $200 million. Since 1973, the amount of annual loan guarantees extended has increased rapidly, doubling in cumulative amount outstanding from $13.5 billion in fiscal year 1978 to $31.6 billion in fiscal year 1980. According to the PPSSCC, from an overall government perspective, the sheer magnitude of these guarantees has contributed to government borrowing in the credit markets, exposed interest rates to upward pressures, and affected debt management policy.

To make less federal credit assistance available to G&T cooperatives, the PPSSCC recommended (1) reducing REA loan guarantee program levels 40 percent over a 4-year period, (2) requiring G&T cooperatives to seek supplemental financing from non-REA sources, (3) adding a "credit elsewhere" test to REA's loan guarantee program, (4) requiring G&T cooperatives to obtain power supplies from other sources rather than through new or expanded construction, and (5) increasing the cost of federal assistance by charging a loan guarantee fee. GAO agrees with the thrust of this issue. In past reports (see section V), GAO has advocated that REA (1) encourage greater private sector participation

in REA's loan guarantee program, (2) require G&T cooperatives to perform in-depth, systemwide studies of all reasonable alternatives for meeting their power requirements, including purchasing power from other sources, and (3) charge a loan guarantee fee to provide a reserve for possible losses.

However, GAO questions the practicality of reducing guaranteed loan levels by as much as 40 percent over a 4-year period. To date, most of the credit needs of G&T cooperatives have been met through loans financed by the Federal Financing Bank (FFB), a government entity in the Treasury Department, with a guarantee from REA--a practice that converts REA guaranteed loans into direct federal loans. Further, many G&T cooperatives now lack the financial strength to borrow without at least an REA guarantee. Considering this, GAO believes it could be premature to reduce REA's loan guarantee levels to the extent the PPSSCC recommended. Instead, GAO believes that as a first step, FFB's participation should be phased out in favor of private sector participation in the REA loan guarantee program. GAO believes that a "credit elsewhere" test could be used to preclude any financially sound G&T cooperative from obtaining a guaranteed loan when credit is available from other sources without such a guarantee.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO believes that legislation would be required to reduce REA's annual loan guarantee level and to charge a loan guarantee fee, as the PPSSCC pointed out. GAO believes also that congressional approval of the other recommended actions that the PPSSCC said could be implemented administratively may be appropriate because of ongoing congressional interest. REA has repeatedly sought reductions in loan guarantee levels through its budget requests and, according to USDA's October 3, 1984, implementation status report, the fiscal year 1984 appropriation act provided less authority for guaranteed loans due to a significant decrease in demand. REA agrees that more supplemental financing is needed. To this end, REA says it is now encouraging G&T cooperatives to issue tax-exempt bonds and/or make more extensive use of leasing arrangements to reduce new plant costs by about 25 to 30 percent.

REA has been silent on adding a credit elsewhere test. Although REA contends that adequate consideration is given to alternative credit sources, GAO believes that a credit elsewhere test should be added to preclude any financially sound G&T cooperative from obtaining an REA guaranteed loan when credit is available from other sources without such a guarantee. REA says it is working to arrive at mutually acceptable requirements and procedures to achieve

this objective. (This issue is discussed in more detail in AG 57.) REA is precluded by law from charging a guarantee fee. According to REA, it questions whether a fee is desirable now considering other legislative changes being proposed or considered.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC stated that a reduction in loan guarantee program levels would decrease off-budget lending outlays but would not result in a quantifiable budget reduction. Instead, it would reduce the unquantified risk of future defaults that would become budget outlays. GAO concurs. The PPSSCC also contends that a loan guarantee fee would produce $9.9 million in 3-year savings. This estimate is based on recovering administrative costs, but the PPSSCC did not present sufficient data to analyze this estimate.

V. RELEVANT GAO REPORTS

GAO/CED-81-14 Financing Rural Electric Generating Facilities: A Large and Growing Activity (Nov. 28, 1980)

GAO/CED-80-52 Rural Electrification Administration Loans to Electric Distribution Systems: Policy Changes Needed (May 30, 1980)

VI. GAO CONTACT

Brian Crowley 275-5138

AG 57: REDUCE GOVERNMENT FINANCING OF RURAL ELECTRIC COOPERATIVES

I. PPSSCC ISSUE AND SAVINGS

According to the PPSSCC,

"The Rural Electrification Administration (REA) should expand the use of outside financing for electric distribution cooperatives by expanding supplemental lending ratios [from 70-30] to 50-50, increasing insured loan rates [from 5 percent] to 8 percent, and strengthening borrower "times interest earned" ratios (TIER) [the number of times net income covers interest expenses] and equity ratios [the ratio of net worth to total assets]. By charging a [1-percent] loan fee and by reducing REA borrowing from the Treasury, revenue of * * * [$33.1] million and a * * * [$99.3] million cost savings will occur over three years. A balanced Rural Electrification and Telephone revolving fund and repayment of $7.8 billion in notes owed the Treasury beginning in 1993 will result in a cost avoidance of that amount after 1993."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

REA, a credit agency of the U.S. Department of Agriculture (USDA), was established in the 1930's to provide government loans to eligible borrowers for the purpose of extending electric service to unserved rural areas. REA built its program around, and helped form, nonprofit cooperatives whose number increased from several dozen at the onset to nearly 1,000 current electric borrowers.

In 1973, the Congress established two interest rates for REA borrowers depending on need, namely 2 percent and 5 percent, and created a revolving fund. REA capitalized the revolving fund with nearly $8 billion in loans outstanding to REA borrowers from 1953 to 1973 by issuing interest-free notes for the above amount to the Treasury, with revolving fund repayments of the principal to begin in 1993. Additional funds were to be provided to the revolving fund through REA borrowings from the Treasury in exchange for Certificates of Beneficial Ownership (CBO's) as loan collateral.

According to the PPSSCC, with an annual lending flow of $850 million and rising interest expenses paid to the Treasury for CBO's, total interest expense in the revolving fund will soon exceed income and interest paid into the revolving fund from previous borrowers. The PPSSCC believes that unless corrective steps are taken, the imbalance will

increase, with the result that the revolving fund will be depleted in the near future.

GAO agrees that more needs to be done to reduce government financing of cooperatives. In a May 1980 report (GAO/CED-80-52, 5/30/80), GAO reported that many electric distribution cooperatives had the financial strength to borrow from private sources. GAO also reported that while some cooperatives lacked this financial strength, REA had done little to encourage these borrowers to become self-sufficient. GAO recommended that REA (1) develop criteria to determine which borrowers qualify for private sector financing and (2) establish a minimum equity level goal for borrowers with low equities and require such borrowers to develop plans to achieve the goal. The latter would include increasing TIER and equity ratios.

Under the PPSSCC's recommended change from a 70-30 lending ratio to a 50-50 lending ratio, cooperatives would have to obtain half rather than 30 percent of their loan funds from non-REA sources. In addition, the PPSSCC would increase loan interest rates from 5 percent to 8 percent. Both actions would result in treating all cooperatives the same when in reality their needs may be different. For example, some borrowers have the financial strength to obtain all their loan needs from non-REA sources. Others, although financially sound, may have high electric costs and therefore may continue to need REA's low interest rate loans if they are to charge reasonable electric rates. GAO discussed these problems in its May 1980 report and in testimony before the Senate Subcommittee on Agricultural Credit and Rural Electrification in April 1984. GAO believes the Congress needs to reexamine the program's objectives and in light of these objectives, establish criteria to better tailor assistance based on borrower needs.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC's view that implementing action would require congressional approval. According to REA, it agrees that plans are needed to encourage and promote borrower self-sufficiency. REA believes that although goals can be established for increasing TIER and equity ratios, the borrower is ultimately responsible for increasing electric rates to levels sufficient to achieve these goals. REA believes most borrowers will do this only if REA amends its loan agreements and policies to require them to do so. REA is working on a revision in its loan agreements but recognizes that such actions will succeed only if supported vigorously by the cooperatives' trade association.

REA's budget request for fiscal year 1984 was based on a 50-50 lending ratio. But to date, the Agriculture appropriation acts have included language requiring REA to retain the 70-30 ratio in effect as of July 1982. REA plans to prepare new rules to provide for a 25-year maturity period on loans in its telephone program but is silent on the need for a similar change on its loans to electric distribution cooperatives.

According to USDA's October 3, 1984, implementation status report, REA was pursuing legislation to resolve the revolving fund's financial problems. USDA said that this includes provisions that would permit increased supplemental lending ratios, increase the interest rate on loans from 5 percent to the cost of Treasury borrowing, and charge loan fees to cover REA administrative costs.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC estimated that adopting a 50-50 lending ratio would reduce in half REA's borrowings from the Treasury, thereby reducing interest costs by $99.3 million over 3 years. GAO does not believe a change in lending ratios alone will produce any savings because changes in lending ratios do not affect in total how much REA must borrow from the Treasury to meet its loan obligations. Rather, program lending levels dictate the amount that must be borrowed, and GAO estimates that program lending levels would have to be reduced by about 35 percent to produce reduced interest costs of the magnitude identified by the PPSSCC. The PPSSCC's savings estimates, however, are not premised on a reduction in program lending levels. In fact, in estimating revenues from initiating a 1-percent loan fee, the PPSSCC assumed that program lending levels would increase slightly. If program lending levels remain unchanged or increase only slightly, a 1-percent loan fee should produce revenues of the magnitude estimated by PPSSCC--$33.1 million over 3 years.

Although the PPSSCC recommended increasing loan interest rates from 5 to 8 percent, it did not provide any estimate of the additional revenue this would generate. GAO estimates that for each $1 billion in 8-percent loans outstanding, an additional $30 million in interest income would be generated annually.

V. RELEVANT GAO REPORTS

Testimony	Integrity of the Rural Electrification and Telephone Revolving Fund, by John Luke, Resources, Community, and Economic Development Division, before the Subcommittee on Agricultural Credit and Rural Electrification, Senate Committee on Agriculture, Nutrition, and Forestry (Apr. 12, 1984)
GAO/CED-80-52	Rural Electrification Administration Loans to Electric Distribution Systems: Policy Changes Needed (May 30, 1980)

VI. GAO CONTACT

Brian Crowley 275-5138

FEED 2: SUBSTITUTION OF COMMERCIALLY AVAILABLE PRODUCTS FOR FEDERAL SPECIFICATION PRODUCTS

I. PPSSCC ISSUE AND SAVINGS

The PPSSCC stated the issue as follows:

"Can the Federal Government realize greater savings through its efforts to substitute commercially available products for Federal specification products?"

The PPSSCC estimated savings of at least $8.4 million over 3 years by expanding and accelerating the ongoing substitution process.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The federal government has traditionally used lengthy detailed specifications to purchase food products which often increases the price that must be paid. GAO agrees that greater efficiency and uniformity in food procurement can be achieved by making greater use of commercially available products. GAO reports, including those listed in section V, have identified instances where increased competition and lower government procurement costs for food items like soups or ground beef could be achieved.

The PPSSCC recommended changing federal food specifications, implementing a standards-development program, increasing regulatory power, and creating a permanent panel to serve as a communications link between the government and the food industry on questions relating to product specifications. Although GAO has not evaluated the merits of these specific actions, it believes such actions would be a way of forcing action by agencies buying food to make greater use of commercially available products.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO concurs with the PPSSCC that the federal food-buying agencies can implement new procedures to increase the use of commercially available products. As of September 30, 1984, USDA was studying ways to implement the PPSSCC's proposals.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO agrees that commercial buying, where appropriate, should result in substantial cost reduction for the buying agencies. GAO has no basis for assessing the reasonableness of the PPSSCC savings estimate. Actual cost reductions will depend on the number of future food purchases where the

agencies will be able to substitute readily available products for products purchased on the basis of particularized specifications.

V. RELEVANT GAO REPORTS

GAO/RCED-84-150	Establishing New Federal Food-Buying Procedures Would Help Eliminate Unnecessary Special Examinations (Sept. 24, 1984)
GAO/RCED-84-29	Government Could Save Millions by Revising Its Purchase Specification for Ground Beef (Feb. 21, 1984)
GAO/PSAD-80-13	Implementation of Federal Policy on Acquiring and Distributing Commercial Products Is Faltering Badly (Jan. 14, 1980)
GAO/PSAD-77-171	Government Specifications for Commercial Products--Necessary or a Wasted Effort? (Nov. 3, 1977)

VI. GAO CONTACT

Brian Crowley 275-5138

FEED 3: SOY PROTEIN EXTENDER IN GROUND BEEF

I. PPSSCC ISSUE AND SAVINGS

The PPSSCC stated the issue and savings as follows:

"What cost savings could be generated if the U.S. Department of Agriculture (USDA) purchased ground beef extended with soy protein for the National School Lunch Program (NSLP)?

"USDA purchases of 20 percent soy-extended ground beef could generate * * * three-year savings total[ing] $83.9 million."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATION

In fiscal year 1984, USDA paid $140.9 million for 131.9 million pounds of ground beef for the NSLP. GAO believes that purchasing ground beef containing 20 percent soy protein extender, as the PPSSCC recommended, would decrease USDA's cost to purchase ground beef. According to Department of Defense (DOD) tests and other studies, soy extenders do not detract from the palatability or nutritional value of ground beef. The ground beef that DOD purchases for troop feeding has added textured vegetable protein.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

USDA has the authority to purchase ground beef extended with soy protein for the NSLP. However, USDA policies permit each state government to decide whether the schools under its jurisdiction should use soy-extended ground beef and, if so, at what percentage. According to USDA officials, USDA plans to partially implement the recommendation by polling the state governments to determine their interest in using soy-extended ground beef and offering the soy-extended ground beef on a voluntary basis.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

According to USDA, the PPSSCC's recommended action would not result in any net savings under the overall program because all funds appropriated for the program for a specific fiscal year must be spent in that fiscal year. Therefore, according to USDA, any savings resulting from purchases of soy-extended ground beef would have to be used to purchase other meat products or other commodities such as fruits and vegetables. GAO's recent audit work has not included an analysis of either the PPSSCC's or USDA's savings estimates; therefore, GAO does not have a basis for assessing the reasonableness of the estimates.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

Brian Crowley 275-5138

ENERGY 3: GOVERNMENT-OWNED, CONTRACTOR-OPERATED FACILITIES

I. PPSSCC ISSUE AND SAVINGS

Are savings available through changes in the contracting, procurement, auditing, and control relationships between the Department of Energy (DOE), and its government-owned, contractor-operated (GOCO) facilities?

The PPSSCC estimated that staff reductions of at least 2400 GOCO and 600 DOE employees should be possible without sacrificing results--for an annual net savings of about $150 million.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO agrees with the general thrust of this issue raised by the PPSSCC and its recommended changes related to (1) defining GOCO missions, (2) centralizing control over multiprogram laboratories, (3) establishing multi-year funding, and (4) revising the Davis-Bacon Act. Past GAO reports which have examined GOCO facilities (primarily the National Laboratories) determined that the DOE management of these facilities could be improved. DOE had not clearly established the missions of these facilities, had unclear lines of reporting responsibility between these facilities and DOE headquarters, and had inadequate long-term planning for these facilities. Further, GAO has recommended, in past reports, (1) repeal of the Davis-Bacon Act, which establishes high minimum wage rates for GOCO contractors (see issue Wage-1, Labor-12, and USAF-15 for more information on the Davis-Bacon Act), and (2) multi-year funding to ensure continuity in GOCO energy research and development.

However, the PPSSCC's discussion of this issue covers a sweeping panorama of perceived problems, and it suggested actions such as circulation of personnel between GOCOs and their parent companies and the establishment of an incentive fee structure using value analysis. GAO cannot specifically comment on the merit of such actions since they are outside the scope of its past efforts. Further, the PPSSCC takes issue with certain government functions, such as review of GOCO procurement actions and audits of GOCO activities, which are essential functions to maintaining control and accountability of federal funds. While GAO does not necessarily believe that the recommendations related to these issues are incorrect, it cannot support these recommendations based on past work.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO is in general agreement with the PPSSCC's assessment that DOE could take administrative steps to effect some of the recommendations, including changes to DOE's GOCO management structure and revisions to its practices and procedures for overseeing GOCO activities, and that legislative changes are needed to provide for multi-year GOCO funding and to revise the Davis-Bacon Act. The implementation of these recommendations appears feasible, however, as discussed earlier, GAO is not able to comment on the appropriateness of some of these recommendations, such as circulation of personnel between GOCO's and their parent companies, based on past work.

DOE has not yet implemented the PPSSCC recommendations on this issue. However, it does believe that the recommendations are valid and should be implemented.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

Based upon the data presented by the PPSSCC, GAO cannot support the savings estimate for this issue. The cost savings of $150 million are based on projected personnel reductions of 2400 at the GOCO's and 600 at DOE as a result of the recommendations. However, the PPSSCC has not presented a reasonable basis for these reductions. Further, the savings appear to be based on an average personnel cost of $50,000 per year, but no basis is provided for this figure. Such a personnel cost seems high given that, based on seniority, less experienced, lower cost personnel would likely be eliminated if staff reductions did in fact result, particularly from the DOE workforce.

V. RELEVANT GAO REPORTS

GAO/RCED-84-30	A Long-Range Plan Is Needed to Guide DOE and Multiprogram Labortories Research and Development Activities (Jan. 16, 1984)
GAO/EMD-81-97	A New Headquarters/Field Structure Provide A Better Framework for Improving Department of Energy Operations (Sept. 3, 1981)
GAO/EMD-80-58	Increasing Costs, Competition May U.S. Position of Leadership In High Energy Physics (Sept. 16, 1980)
GAO/EMD-78-62	The Multiprogram Laboratories: A National Resource for Nonnuclear Energy Research, Development, and Demonstration (May 22, 1978)

V. GAO CONTACT

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ENERGY 6: FEDERAL ENERGY GRANTS PROGRAM

I. PPSSCC ISSUE AND SAVINGS

"Can improvements be made in the administration and close-out of Federal energy grants?" The PPSSCC estimated that a total of about $9 million in current annual costs could be avoided primarily by eliminating the requirement for audit of grants less than $100,000 and improved use of letters-of-credit.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC made two recommendations to improve DOE's administration and close-out of energy grants. One related to minimizing DOE's administrative effort on smaller grants and the other to reaching an understanding with states on grant financing. GAO agrees with the PPSSCC's recommendation for minimizing DOE's administrative effort through the establishment of some dollar threshold below which the requirements for the audits would be exempt. In a recent report (GAO/AFMD-84-21), GAO suggested not requiring audits of federal financial assistance received by state and local governments under $100,000, since audits of grants over $100,000 would provide coverage of most state and local governments receiving federal assistance.

GAO also agrees with the PPSSCC's recommendation for improving grant financing by reaching agreement with states on improved use of letters-of-credit. In a September 1982 report (GAO/OGC-82-1), GAO stated that DOE grantees were receiving cash in excess of their immediate needs. That report pointed out, among other things, that improvements were needed in DOE's use of the letter-of-credit method of grant funding.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO and the PPSSCC believe that the recommendations can be implemented within the present authority of DOE and in coordination with the Office of Management and Budget. However, legislative action has been taken with respect to the audit requirement for grants. On October 19, 1984, the Congress passed the Single Audit Act of 1984 (Public Law 98-502) exempting state and local governments receiving federal financial assistance of less than $25,000 from audit requirements. State and local governments receiving $100,000 or more in any fiscal year are required to have a single audit performed. The single audit concept was incorporated into this legislation at the recommendation of GAO to improve the efficiency of audits of federal financial assistance received by state and local governments.

The legislation permits an option for state and local governments receiving federal financial assistance between $25,000 but less than $100,000. Such governments may elect to either perform the single audit or be subject to existing federal grant audit requirements.

Regarding the improved use of letters-of-credit, DOE advised GAO that action on the recommendation will not be taken until the Office of Management and Budget completes its revisions of procedures pertaining to the use of letters-of-credit by state and local governments.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC estimated that savings of $9 million would occur if its recommendations were implemented. Of these savings, $7.5 million was attributed to the grant audit requirement and $1.5 million to improved use of letters-of-credit. The PPSSCC's $7.5 million estimated savings was based on waiving the audit requirement on 75 percent of the completed grants valued at less than $100,000, using a cost of $2,000 per audit. The PPSSCC provided no basis for the $2,000 per audit. Although GAO believes savings will be achieved by implementing this recommendation, the reasonableness of the $2,000 per audit used by the PPSSCC to calculate its savings will be a significant factor in the amount of potential savings that will result.

The PPSSCC's $1.5 million estimated savings resulting from improved use of letters-of-credit was based on its belief that 10 percent of the excess funds paid on letters-of-credit by DOE could be eliminated. The PPSSCC estimate was based on $15.4 million of excess payments previously reported by GAO. GAO believes that improved use of letters-of-credit will result in reduced borrowing by the Treasury Department. Considering that the average Treasury bill rate over the past couple of years has been approximately 10 percent, the 10 percent rate used by the Commission and estimated savings of $1.5 million appears to be reasonable.

V. RELEVANT GAO REPORTS

GAO/AFMD-84-21	Study of Progress Made in Implementing the Single Audit Concept (Mar. 14, 1984)
GAO/AFMD-83-1	South Carolina's Objection to a Letter-of-Credit Procedure Used by the Department of Health and Human Services (Dec. 16, 1982)
GAO/OGC-82-1	Major Financial Management Improvements Needed at the Department of Energy (Sept. 15, 1982)

VI. GAO CONTACT

John Sprague 275-1441

ENERGY 7: STRATEGIC PETROLEUM RESERVE

I. PPSSCC ISSUE AND SAVINGS

"Can the Strategic Petroleum Reserve (SPR) be operated more cost-effectively?"

The PPSSCC estimated cost savings for the SPR program of $1.281 billion over a 3-year period. These estimated savings were to come from (1) avoiding interim storage costs by reducing the oil fill rate from 300,000 to 220,000 barrels per day ($923.0 million), (2) exempting SPR oil shipments from Cargo Preference Act requirements ($213.4 million), (3) deferring installation of custody-type meters on individual SPR storage caverns to measure oil quantities ($124.0 million), (4) awarding a single firm-fixed-price contract for constructing the new Big Hill, Texas, storage site ($11.7 million), and (5) using a Government-Owned, Contractor-Operated (GOCO) contract arrangement for managing the SPR ($9.0 million).

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

Where sufficient work has been done to formulate an opinion, GAO generally agrees with the PPSSCC's determination that improvements in the cost effectiveness of SPR operations are possible. On the oil fill question, for example, GAO testified before the Senate Committee on Energy and Natural Resources that a reasonable objective for filling the SPR would be to match the fill rate with the availability of permanent storage capacity, thereby saving interim storage costs. GAO also agrees that (1) by exempting SPR oil shipments from the Cargo Preference Act, which requires that one-half of all oil shipments be carried in U.S.-flag tankers, oil costs would be reduced and (2) fixed-price contracting at the Big Hill site is the preferred contracting methodology. The PPSSCC study, however, did not determine what effect, if any, exempting SPR shipments would have on the national security need for a U.S. merchant fleet.

Although the PPSSCC recommended deferring installation of meters to improve the precision of measuring the oil moving in and out of individual storage caverns, it did not recognize that the Department of Energy (DOE) had already determined that the meters were not necessary and had no plans to install them.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that implementation of four of the recommendations is possible by executive

action and that exempting SPR oil shipments from the Cargo Preference Act would require congressional approval. GAO disagrees, however, that legislative action is needed to support an executive decision to limit the oil fill rate to 220,000 barrels per day since that action is authorized in the Energy Emergency Preparedness Act.

Prior to the issuance of the PPSSCC report in August 1983, the administration and the Congress already had taken actions that achieved the PPSSCC's objectives for two of the recommendations. DOE had decided not to install custody-type meters at individual storage caverns and, in February 1983, the administration had submitted its fiscal year 1984 budget, which proposed an SPR fill rate of 145,000 barrels per day for fiscal year 1984 and 100,000 barrels per day thereafter. The Department of the Interior and Related Agencies Fiscal Year 1984 Appropriations Act subsequently set the minimum fill rate at 186,000 barrels per day for fiscal year 1984 and the accompanying conference committee report indicated that this rate would be extended to fiscal year 1985. Consequently, the oil fill rates are lower than the PPSSCC's proposed rate.

DOE currently is taking actions that would implement in part the PPSSCC recommendation to make SPR facilities construction and operation activities a GOCO activity. However, DOE cannot award a single fixed-price contract for the bulk of the construction work at Big Hill as was recommended. Prior to the PPSSCC report, DOE had already started to contract for discrete segments of the Big Hill work which negated its ability to offer a single lump sum contract. DOE is, however, using firm-fixed-price contracts which partially fulfill the objective of the recommendation.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO believes that the PPSSCC savings estimate of $1.28 billion is overstated and that very little, if any, is achievable. For example, two of the savings estimates--$923 million for reduced interim storage needs and $124 million for deferred installation of custody-type meters--were based on expenditures that DOE did not intend to make and therefore did not budget. The $213.4 million savings from exempting SPR oil shipments from Cargo Preference Act requirements is overstated because U.S.-flag tanker rates have dropped substantially in the past 2 years. (GAO estimates that using U.S.-flag tankers added $0.50 to each barrel of oil delivered to the SPR in 1983 as compared with the PPSSCC estimate of $1.05 per barrel during the 3-year period.)

The specific bases for the $20.7 million savings from the two recommendations for improved contracting procedures were not identified so an analysis of their reasonableness could not be made.

V. RELEVANT GAO REPORTS

Testimony	Energy Emergency Preparedness, by F. Kevin Boland, Resources, Community, and Economic Development Division, before the Senate Committee on Energy and Natural Resources (Oct. 19, 1983)
Letter	Alternative SPR Fill Rates, from J. Dexter Peach, Resources, Community, and Economic Development Division, to the Chairman, Subcommittee on Energy and Mineral Resources, Senate Committee on Energy and Natural Resources, and the Chairman, Subcommittee on Fossil and Synthetic Fuels, House Committee on Energy and Commerce (June 13, 1983)
GAO/EMD-82-95	Feasibility and Cost of Interim Storage for the Strategic Petroleum Reserve (May 21, 1982)
GAO/EMD-82-62	Leasing Storage Capacity for the Strategic Petroleum Reserve (March 12, 1982)

VI. GAO CONTACT

John Sprague 275-1441

I. PPSSCC ISSUE AND ESTIMATED SAVINGS

Would the National Laboratories' productivity improve if the federal research and development (R&D) mission in regard to energy were defined more clearly?

The PPSSCC believes a sharply defined R&D mission for the Department of Energy (DOE) would focus attention on programs at the labs that relate properly to the mission and eliminate the irrelevant ones thereby accelerating progress and improving performance.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO's work over the past several years dealing with DOE's multiprogram labs generally supports the PPSSCC on this issue. In a 1978 report, GAO noted that the missions of these laboratories i the nonnuclear energy R&D area were not adequately defined, were often small and fragmented, and were not integrated into DOE's overall R&D efforts.

GAO agrees with the overall thrust of the PPSSCC's recommendations. The recommendations, taken together, advocate integration of the Congress, industry, and DOE in the development and implementation of R&D activities. Such actions would allow for more focused activities at the National Laboratories. However, GAO does have some concerns relative to certain of the material presented by PPSSCC in support of its positions. The PPSSCC takes issue with a number of activities which it claims the Congress overfunded in the past, including ocean thermal energy conversion, geothermal technology, and advanced battery research. The PPSSCC claims that these activities are best left to the private sector; however, GAO's reports on these three activities has shown that because of costs and risks, industry would not independently support such activities. The PPSSCC further claims that DOE should continue research only on nuclear and fossil energy technologies, and that all others should be dropped because of low potential energy contributions. Such a policy may be short-sighted, however, since (1) the contribution from other energy areas--such as solar and geothermal--are potentially large and limited only by current economics and technology, (2) the global energy situation is unstable, and unforseen events can quickly disrupt the current energy supply situation, and (3) many difficult problems, particularly the public's fear of nuclear power and the potential environmental impacts of fossil fuels, could restrict further use of nuclear and fossil energy. Consequently, the federal involvement in alternative energy development should not be arbitrarily ruled out.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with PPSSCC that the recommendations can be implemented by the Secretary of Energy. The recommended actions, with the above qualifications, appear to be appropriate and feasible responses to the overall issue.

DOE agrees that the recommended actions should be implemented. DOE has not yet implemented the recommendations, but intends to achieve the desired congressional and industry involvement on a program-by-program basis.

V. GAO ANALYSIS OF SAVINGS ESTIMATES

PPSSCC did not claim any cost savings for this issue.

V. RELEVANT GAO REPORTS

GAO/EMD-82-38	Electric Vehicles: Limited Range and High Costs Hamper Commercialization (Mar. 19, 1982)
GAO/EMD-81-110	Elimination of Federal Funds for the Heber Project Will Impede Full Development and Use of Hydrothermal Resources (June 25, 1981)
GAO/EMD-81-62	Full Development of OTEC's Potential May BE Impeded (Apr. 10, 1981)
GAO/EMD-78-62	The Multiprogram Laboratories: A National Resource for Nonnuclear Energy Research, Development, and Demonstration (May 22, 1978)

VI. GAO CONTACT

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ENERGY 12: NATIONAL LABORATORY MANAGEMENT

I. PPSSCC ISSUE AND SAVINGS

Can improved management relationships between the National Laboratories and Department of Energy (DOE) headquarters reduce costs?

The PPSSCC estimated that about $150 million in annual overhead costs, split among DOE headquarters in Washington, the regional operations offices, and the laboratories, can be saved for government-owned, contractor-operated (GOCO) facilities as a whole. [See also issue ENERGY 3]

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO agrees with the PPSSCC's assessment that streamlining the DOE laboratory management structure and clearly designating lines of responsibility and accountability should result in better laboratory performance and could reduce costs. GAO's reports on the areas of DOE's field/headquarters office structure and the roles and management of the laboratories showed that there were excessive layers of DOE management, and that more direct communications between the laboratories and the cognizant Assistant Secretary in DOE would enhance the laboratories functions. Such communications could improve the productivity of the laboratories and thereby reduce costs and/or better utilize available funds.

The PPSSCC's recommendations on this issue are generally consistent with past GAO recommendations regarding overall laboratory management and reporting structure. However, the PPSSCC does make recommendations which GAO has not addressed--specifically, extending the laboratories time frames for reporting to DOE, and having DOE field offices report to the same DOE Assistant Secretary to whom their respective laboratories report--and with which GAO has no basis to comment.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that the recommendations can be implemented by the Secretary of Energy under current authority. GAO believes that the recommendations are feasible to implement.

DOE has not yet acted upon these recommendations, but it believes the recommendations are valid and should be implemented in the future.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC does not provide a savings estimate for this issue, as it has already been included by the PPSSCC in its savings estimate of $150 million for issue ENERGY 3. With regard to that savings estimate, GAO found no reasonable basis for the PPSSCC's estimates of personnel reductions and related salary savings, and consequently GAO can not support the projected $150 million savings. [See issue ENERGY 3]

V. RELEVANT GAO REPORTS

GAO/EMD-81-97	A New Headquarters/Field Structure Could Provide A Better Framework for Improving Department of Energy Operations (Sept. 3, 1981)
GAO/EMD-78-62	The Multiprogram Laboratories: A National Resource for Nonnuclear Energy Research, Development, and Demonstration (May 22, 1978)

VI. GAO CONTACT

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ENERGY 14: TECHNOLOGY TRANSFER TO INDUSTRY

I. PPSSCC ISSUE AND SAVINGS

Can technological innovations and findings be transferred from the National Laboratories to private industry more effectively?

The PPSSCC states that benefits to the nation are likely to come from broader interaction at the research level between the National Laboratories and the private sector. It further states that such benefits will be mutual and considerable, but cost savings from the broad array of contributions, over an indefinite and irregular variety of time spans, cannot be assigned a realistic dollar value.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC has concluded that closer contacts are needed between industry and the National Laboratories; however, its discussion of the issue provides little definitive support for its position. Nevertheless, GAO is in general agreement with the overall concept of this issue based on its broad interaction with industry and laboratories during the conduct of its work. Greater contact between industry and the laboratories would enable ideas and technical advances to be transferred more easily and could possibly reduce duplication of efforts between the federal and private sector. The result should be more efficient and rapid development and deployment of technological innovations.

The recommendation of the PPSSCC, to foster greater interaction through a DOE task force and an aggressive program to inform industry of the laboratories' capabilities, seems to be an appropriate response to the issue.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that the Secretary of Energy has the authority to implement this recommendation, and believes implementation is feasible.

DOE agrees with the views and recommendation of the PPSSCC on this issue, and is seeking to implement this recommendation.

IV. GAO ANALYSIS OF SAVINGS ESTIMATES

PPSSCC did not claim any cost savings for this issue.

V. RELEVANT GAO REPORT

GAO/EMD-78-62 The Multiprogram Laboratories: A National Resource for Nonnuclear Energy Research, Development, and Demonstration (May 22, 1978)

VI. GAO CONTACT

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ENERGY 19: POWER MARKETING ADMINISTRATIONS

I. PPSSCC ISSUE AND SAVINGS

PPSSCC believes that the Department of Energy's (DOE) five Power Marketing Administrations (PMAs) are not managing their ratemaking process efficiently. Thus, other organizational arrangements should be pursued. The PPSSCC estimates that, if the ratemaking process properly followed the statutory mandate to recover costs and make repayments in a manner consistent with sound business principles, at least $390.0 million in revenues would result in the first year and a total of $1,290.9 million in revenues would accrue over 3 years. Furthermore, the PPSSCC stated that PMA customers would not be precluded from continuing to enjoy "bargain rates" in comparison with those based on other sources.

PPSSCC estimates that a transfer of assets and operating responsibilities of the Alaska Power Administration to the State of Alaska would produce a very large one-time receipt to the U.S. Treasury, and subsequently eliminate $1.6 million in operating expenses in the first year and $5.3 million over 3 years.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATION

GAO agrees with the PPSSCC recommendation related to modifying the PMAs' revenue stream. GAO has recommended in a number of reports and congressional testimony that the present PMA structure needs to be strengthened to assure that rates are sufficient to recover all costs, including federal capital costs. The PMAs' revenues from electricity sales have not always covered the costs incurred to produce and market that electricity. The Bonneville Power Administration, for example, experienced net operating losses every year during the period 1973-1983, except for 1975 and 1976, and did not pay all the interest due on the federal investment during the period 1979-83. In order to assure long-term financial viability of federal hydroelectric facilities, revenues must be sufficient to recover all costs including federal capital costs as currently mandated by law. (See PRIVATE 2: Power Marketing Administrations.)

With regard to selling the Alaska Power Administration, GAO has not conducted any review directly related to this recommendation. However, GAO sees little incentive for the State of Alaska to make a lump sum payment. The U.S. Treasury under the PPSSCC's recommendation would not benefit from an accelerated flow of funds nor would it receive any additional money once the PMA is sold.

Additionally, the 3-year "savings" of $5.3 million for operating expenses is not really a savings to the Treasury since this amount would not be recovered through

electricity sales revenues and repaid to the treasury with interest.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

PPSSCC states, and GAO concurs, that strengthening the PMA structure for repaying the federal investment is within the power of the Secretary of Energy and that selling the Alaska PMA would require congressional action. Department of Energy has not publicly announced its position on these recommendations.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The bulk of the increased revenues of $1,290.9 million, comes from raising PMA electricity rates to cover all federal debt costs. While the methodology used to determine the estimated revenue increase is sound, the actual amount will vary depending on the assumptions used in making the calculations.

The balance of PPSSCC's estimated savings, $5.3 million, accrues after the sale of the Alaska Power Administration and is attributed to the elimination of operating expenses. As stated above, this cannot be counted as an actual savings to the Treasury since money appropriated to the PMA for operating expenses is repaid to the Treasury with interest by the PMA.

V. RELEVANT GAO REPORTS

GAO/RCED-84-25	Policies Governing Bonneville Power Administration's Repayment of Federal Investment Still Need Revision (Oct. 26, 1983)
Letter	Improving the Repayment Study Interest Rate Practices of the Power Marketing Administrations, from J. Dexter Peach to the Acting Assistant Secretary for Conservation and Renewable Energy and the Bonneville Power Administration (Sept. 20, 1983)
Testimony	F. Kevin Boland, before the House Committee on Energy and Commerce Subcommittee on Energy Conservation and Power (Sept. 14, 1983)
Testimony	F. Kevin Boland, before the Senate Committee on Energy and Natural Resources (Sept. 13, 1984)

VI. GAO CONTACT

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I. PPSSCC ISSUE AND SAVINGS

PPSSCC believes that the federal government should begin immediately an orderly process of disengagement from participating in the generation and transmission of electric power through its Power Marketing Administrations (PMAs). In addition, PPSSCC believes the federal government should begin to implement a user fee system for the use of the falling water that generates electricity at federal multipurpose dams.

PPSSCC estimates that proceeds from the sale of federal hydroelectric generation and transmission facilities should yield the government $25 billion over 5 years. In addition, PPSSCC estimates that by the sixth year after all the assets are sold, reduction in net outlays for capital investment and interest subsidies, plus the collection of user fees and interest earned on the cash flow, would produce over $5 billion in savings and revenue for the federal government. The 3-year PPSSCC estimated impact would total $19,836.5 million, including $3,205.0 million in reduced interest, user charges of $1,301.5 million, reduced costs of $330 million, and revenue accelerations of $15 billion.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO believes several policy and practical concerns need to be fully addressed before beginning to defederalize PMA electricity generation and transmission facilities. Total or partial defederalization may have merit but a decision to implement the process would be premature before several questions are addressed. For instance, these facilities are operated for the benefit of other purposes such as irrigation, navigation, flood control, fish and wildlife protection, and power used at the facility, which are interrelated and need to be operated in concert. Detailed negotiations and comprehensive contracts would be required to ensure that all interests are adequately protected. Additional questions that require resolution would include the status of current federal-state contracts, power sales contracts, and procurement contracts, impacts on treaties with Mexico and Canada, effect on customer's rates, identifying qualified buyers, and establishing an equitable purchase price and payment schedule.

The recommendation for a user fee on the falling water used to generate electricity is evaluated in the section on user fees. (See USER 5: Power Marketing Administrations.)

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

Legislation would be required to sell the PMAs. However, GAO sees a number of major obstacles in implementing this recommendation. As discussed above, a number of

questions would need to be resolved. One of the major obstacles would be the resistance of public bodies and electric cooperatives who would stand to lose their preference rights to purchase relatively inexpensive power which is provided for by current law. Another major obstacle is identifying qualified buyers for the PMAs who would be willing and able to make the required substantial annual payments. The Department of Energy has not taken any action on this recommendation.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC calculated both a book value and a potential market value for the hydroelectric system, $13.3 billion and $77.4 billion respectively, and for reasons undisclosed in its analysis chose a sale price of $25 billion. GAO has no basis to assess the merits of PPSSCC's market value estimates or whether PPSSCC's estimated sale price is reasonable.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

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USER 5: POWER MARKETING ADMINISTRATIONS

I. PPSSCC ISSUE AND SAVINGS

PPSSCC believes the current rates (user fees) being charged by the Department of Energy's (DOE's) five Power Marketing Administrations (PMAs) may be inadequate.

PPSSCC believes that under existing policy, the rates could be set to recover at least $1,372.5 million more revenue in the first year, $1,509.7 million in the second year and $1,660.7 million in the third year for a 3-year total of $4,542.9 million.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC concluded that PMA electric power rates charged to customers are not sufficient to allow the PMA's to obtain the revenue necessary to timely repay the federal investment in power facilities. Based on this conclusion, PPSSCC recommended that PMAs increase rates sufficient to provide for a fixed annual repayment of the federal investment and that a user fee be imposed to provide additional revenue to the U.S. Treasury. (See ENERGY 19 for further information.)

GAO agrees, based on its past work, that PMA rates should be sufficient to recover all PMA costs including amortization of the federal investment and has recommended that the Bonneville Power Administration adopt a cost-based method for determining future revenue requirements which would include a fixed annual repayment schedule for repaying the federal investment.

With respect to establishing a user fee (a falling water fee), while GAO agrees that a user fee can be effective in raising revenue, the legislated mandate for the PMAs is to recover costs and not make a profit. Without a justifiable basis for establishing a fee in PMAs' legislative framework, GAO questions establishing a revenue generating fee without providing a specific purpose or demonstrated need.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

Legislation already requires PMAs to set electric power rates to recover costs and make repayments on the federal investment on power facilities. Legislation would be required, however, to impose a user fee in addition to electric power rates. GAO believes the recommendation pertaining to recovering the federal investment is feasible.

The Department of Energy has not announced its position on this recommendation.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

According to the PPSSCC's analysis, seventy percent of the $4.5 billion increased revenue (over a 3-year period) would be derived from the $0.0075/kilowatt hour user fee. This fee is supposed to represent half of the difference between the PMA cost of producing electricity and the value of the electricity to the PMAs' utility customers. The PPSSCC did not tie this fee to a specific purpose or need--other than increasing general revenue. If a fee is imposed, the final rate (whether $0.0075 or some other amount) would be an arbitrary figure subject to negotiation by the affected parties. The total revenue collected would, of course, depend directly on the rate fee established.

The accuracy of the remaining increased revenue estimate ($1.3 billion) to assure total and timely repayment of the federal investment in the PMAs cannot be evaluated. While the basic methodology used for determining the revenue is sound, the overall amount could vary depending upon the assumptions used in making the calculations. For example, the amount of additional revenue the PMA receives from increased rates charged for its electricity may vary considerably because of the elasticity in the demand for electricity or the availability of alternative sources of power.

V. RELEVANT GAO REPORTS

GAO/RCED-84-25	Policies Governing Bonneville Power Administration's Repayment of Federal Investment Still Need Revision (Oct. 26, 1983)
Letter	Improving the Repayment Study Interest Rate Practices of the Power Marketing Administrations, from J. Dexter Peach to the Acting Assistant Secretary for Conservation and Renewable Energy and the Bonneville Power Administration (Sept. 20, 1983)
Testimony	F. Kevin Boland, before the House Committee on Energy and Commerce Subcommittee on Energy Conservation and Power (Sept. 14, 1983)
Testimony	F. Kevin Boland, before the Senate Committee on Energy and Natural Resources (Sept. 13, 1984)

VI. GAO CONTACT

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CONG 3-2: POWER MARKETING ADMINISTRATIONS

I. PPSSCC ISSUE AND SAVINGS

PPSSCC believes the Department of Energy should seek repeal of legislation prohibiting the study of the pricing structure of public power by five Federal Power Marketing Administrations (PMAs). Projected three year savings is $785.3 million.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATION

The PPSSCC's recommendation is directed at repealing the current prohibition, contained in PMAs' appropriations legislation, against using any funds to study changing their electricity rate structure to reflect "market" prices for electricity provided. PMAs currently establish electricity rates to recover their costs of operations as required by law.

Overall, GAO believes that a study of establishing PMA electricity rates based on market prices for electricity appears reasonable. Such a study could address the costs and benefits of revising PMAs current method of established electricity rates and provide options for the Congress to evaluate.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

Implementing the PPSSCC recommendation would require Congressional action.

The Department of Energy has not taken action on this recommendation.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC says that "Congress has continued to vote taxpayer subsidies (to the PMAs) to the tune of $249.2 million in 1983 and $255.3 million for 1984." These figures and an estimated figure for 1985 comprise the PPSSCC "savings" if the recommendation to repeal legislation prohibiting the rate structure study is implemented.

GAO disagrees with this estimate. The savings figures appear to be PMA appropriations for operating expenses. These appropriations are repayed to the Treasury annually with interest from revenues received by the PMAs. Implementing the PPSSCC recommendation to study the PMA pricing structure would not obviate the need for these appropriations nor result in any dollar savings.

V. RELEVANT GAO REPORTS

GAO/RCED-84-25	Policies Governing Bonneville Power Administration's Repayment of Federal Investment Still Need Revision (Oct. 26, 1983)
Letter	Improving the Repayment Study Interest Rate Practices of the Power Marketing Administrations, from J. Dexter Peach to the Acting Assistant Secretary for Conservation and Renewable Energy and the Bonneville Power Administration (Sept. 20, 1983)
Testimony	F. Kevin Boland, before the House Committee on Energy and Commerce, Subcommittee on Energy Conservation and Power (Sept. 14, 1983)
	F. Kevin Boland, before the Senate Committee on Energy and Natural Resources (Sept. 13, 1984)

VI. GAO CONTACT

Daniel White (301) 353-3711

I. PPSSCC ISSUE AND SAVINGS

"Can the scope and timing of procedures within the Federal Energy Regulatory Commission (FERC) be modified to reduce cost burdens for both Government and the private sector?"

The PPSSCC made several recommendations to make FERC's operations more efficient and effective and said that these improved operations could reduce costs for individual energy users. However, the PPSSCC did not quantify the impact of these improvements on FERC's budget. Also, the PPSSCC estimated cost savings of $9 million in the first year and $29.7 million over 3 years by modifying the Natural Gas Policy Act (NGPA) and ceasing oil pipeline regulation. The PPSSCC did not quantify savings available from its recommendation to exempt from federal licensing all hydroelectric projects of 15 megawatts or less.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO agrees with the general thrust of the PPSSCC recommendations aimed at making FERC's regulatory functions more efficient and effective. GAO, however, has no basis for commenting on the PPSSCC recommendations to terminate federal regulation of oil pipelines and exempt certain hydroelectric projects from federal licensing. Also, GAO does not agree with the PPSSCC recommendation concerning the NGPA.

GAO's conclusions on the need for FERC to expedite case processing and to reduce reporting requirements on utilities under the Public Utilities Regulatory Policies Act of 1978 (PURPA) are documented in GAO reports. Based on its reviews of FERC's activities, GAO has made recommendations similar to five of the PPSSCC recommendations aimed at reducing regulatory delays and reporting requirements. GAO has recommended improvements for the management information system, expanded use of generic rulemaking, expedited review of administrative law judge decisions, expedited handling of hydroelectric cases involving reviews by other federal agencies, and reduced reporting requirements under PURPA.

The basis for PPSSCC's recommendation that the Congress reexamine the effectiveness of the NGPA is unclear. Since enactment of the NGPA in 1978, the Congress has evaluated the act's effectiveness and considered alternatives to it.

GAO has not reviewed the advisability of terminating federal regulation of oil pipelines and exempting from federal licensing all hydroelectric projects of 15 megawatts or less. GAO believes, however, that there are several considerations, such as the adequacy of competition in the oil pipeline industry and the potential environmental impact of raising the hydroelectric exemption level to 15 megawatts, which should be addressed before the PPSSCC's recommendations are implemented.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

FERC has implemented those PPSSCC recommendations which did not require congressional action. Implementation of the remaining recommendations must await congressional action.

The 98th Congress did not act on proposed legislation to terminate regulation of oil pipeline rates. Also, a draft bill to give FERC the authority to raise the exemption level for small hydroelectric installations to 15 megawatts was not introduced in the 98th Congress.

Under its existing authority, FERC is implementing four of the five recommendations made by GAO and the PPSSCC for reducing regulatory delays. Concerning the fifth recommendation, a FERC official stated that FERC has already reduced the utilities reporting requirements under two sections of PURPA to the statutory minimum. To reduce the reporting requirements below the statutory minimum would require legislative action. FERC has no plans to request such legislation.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC estimated savings to FERC of $29.7 million over 3 years from implementation of two of its recommendations--revising the NGPA ($16.5 million) and ceasing oil pipeline regulation ($13.2 million). Although it contemplated some type of natural gas decontrol in developing its NGPA recommendation, the PPSSCC did not use a clearly defined alternative to NGPA as a basis for comparison with current law. The PPSSCC states in its recommendation that it is not "...limiting its recommendation to a specific alternative..." Also, the PPSSCC's report did not contain any estimates of the effect on FERC's budget of which alternatives, if any, it considered. Therefore, GAO has no basis for analyzing the PPSSCC's savings estimate.

As discussed in section II above, GAO believes that the adequacy of competition in the oil pipeline industry should be a determining factor in deciding whether, and to what extent, oil pipeline rates should be deregulated. This determination could impact the PPSSCC's savings estimate of $13.2 million, which is based on complete deregulation.

V. RELEVANT GAO REPORTS

GAO/RCED-83-51	Federal Energy Regulatory Commission Has Expedited Case Processing: Additional Improvements Needed (June 10, 1983)
GAO/EMD-81-105	Burdensome and Unnecessary Reporting Requirements of the Public Utility Regulatory Policies Act Need to be Changed (Sept. 14, 1981)

VI. GAO CONTACT

John Sprague 275-1441

I. PPSSCC ISSUES AND ESTIMATED SAVINGS

Are there potential improvements in the internal organization of the Nuclear Regulatory Commission (NRC), its relationship with industry, and its methods of licensing and regulation that would permit the goal of safe nuclear power production to be realized more efficiently and effectively?

The PPSSCC proposes that, although some budget savings for the Agency would result from the reforms, the principal benefits of these reforms would be greater concentration on the NRC's primary safety mission, a more effective allocation of industry safety resources, and a dramatic containment of industry costs that are ultimately borne by users of electricity--probably totalling some $10 billion in cost savings over the next decade.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The essence of this PPSSCC issue is that increasing plant construction costs, an unpredictable and lengthening NRC licensing process, and an undisciplined NRC approach to imposing new safety requirements on operating plants could, if not controlled, foreclose the nuclear option as a basic source of generating electricity. The PPSSCC points out that NRC has a heavy regulatory workload--76 operating plants and 63 others in the construction pipeline at the end of 1982--which it must carry out in an "emotionally charged and politically polarized" atmosphere.

The PPSSCC notes that since 1973 the time required to bring new plants on line has doubled to 12 to 14 years and that, according to an Edison Electric Institute survey, more than $30 billion of the cost of new plants entering service in that time period were attributable to new regulatory requirements. While recognizing that many new requirements added some unquantifiable increment of safety, the PPSSCC concluded that the nuclear regulatory process falls short of an acceptable level of stability. Corrective action, according to the PPSSCC, is needed in (1) the processes NRC uses to license new plants and impose new safety requirements on operating plants, (2) NRC's organization and management, and (3) NRC's relationship with the nuclear industry.

The major PPSSCC recommendations are (1) enactment of nuclear plant licensing reform legislation proposed by the Department of Energy (DOE) and, in conjunction, (2) the early adoption by NRC of the reforms proposed in the DOE legislation to the extent that they can be adopted administratively.

NRC and others have also proposed licensing reform bills embodying many of the concepts in the DOE legislation. GAO has not analyzed any of the proposed licensing reform bills. Therefore, GAO takes no position on the specific provisions of the DOE or other bills. Nevertheless, based on GAO's work over the last 10 years, GAO believes that the concepts embodied in the DOE and other bills have merit and are therefore worthy of consideration by the Congress and/or NRC. For example, GAO believes early site and design approvals, standardization, and authority to issue a combined construction and operating license before construction begins all offer opportunities to shorten the time it takes utilities to plan and build plants, reduce plant construction costs, and help assure that safety and environmental issues are surfaced and resolved early. Implementation of some licensing reform measures, such as a combined construction and operating license, clearly require change in existing law. Others, such as establishing standards for imposing new requirements on licensed plants, could, and perhaps appropriately should be, adopted administratively.

In the area of improving NRC's organization and management, the PPSSCC recommended, among other things, that

--all non-safety regulatory functions performed by NRC should be transferred to other appropriate agencies,

--NRC should promptly be housed in a single building in the District of Columbia, and

--approval authority for off-site emergency plans for nuclear power plant accidents should be transferred from the Federal Emergency Management Agency (FEMA) to NRC.

GAO has not analyzed the propriety of transferring all non-safety NRC functions. One important non-safety function of NRC, however, is to review any executive branch judgment that export of a nuclear material or technology will not be detrimental to U.S. security. In GAO's 1981 report on the implementation of the Nuclear Non-Proliferation Act of 1978, it did not find sufficient justification to recommend transferring this function from NRC.

GAO agrees that NRC should be consolidated into one building or building complex. As the PPSSCC points out, NRC is currently scattered among several buildings in the District of Columbia and adjoining suburban Maryland. GAO's previous work on this issue, however, leads it to conclude that a suburban location should also be considered if it would facilitate a prompt consolidation.

GAO does not agree that offsite emergency plan approval authority should be transferred from FEMA to NRC. In a 1979 report on emergency preparedness planning, GAO concluded that FEMA should retain this authority because it is the lead agency for all federal disaster relief and emergency preparedness activities.

The last area of PPSSCC's recommendations related to improving NRC's relationship with licensees by (1) facilitating early exchange of views on safety issues, (2) providing regulatory incentives for licensee initiatives, and (3) encouraging greater industry participation in safety research. GAO believes this recommendation should be explored but cautions that any NRC initiatives in this area should take into account NRC's obligation to provide meaningful opportunities for public participation in its licensing and related regulatory activities.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC stated that legislative reform of nuclear power plant regulation requires action by the President, the Congress, and NRC. It added that transferring non-safety functions from NRC requires congressional action and consolidating NRC in one building must be initiated by the President. All other recommendations, the PPSSCC said, can be implemented on NRC's initiative. GAO agrees with the PPSSCC's implementation assessment and believes that its recommendations are feasible to implement.

NRC has not undertaken any direct actions to implement the PPSSCC's recommendations. However, several NRC initiatives have addressed some PPSSCC recommendations. For example, the NRC Commissioners have supported licensing reform legislation for several years, and the agency has worked vigorously with the General Services Administration to consolidate NRC in a single building.

IV. GAO ANALYSIS OF SAVINGS ESTIMATES

The PPSSCC claimed, but did not quantify, some NRC budget savings from implementation of its recommendation. The larger benefit, it said--probably $10 billion in the next decade--would be in containing utility costs. GAO agrees that any savings would primarily accrue to utilities and their customers. The estimated $10 billion in industry savings, however, is probably too high because much of the increased cost of nuclear power plants in the last 10 years is attributable to factors other than NRC regulation. The principal factors are lower than expected demand for

electricity, which caused utilities to delay completion of many plants, in conjunction with high interest costs and inflation.

V. RELEVANT GAO REPORTS

GAO/EMD-81-76	Further Evaluation of the Proposed Interim Consolidation of the Nuclear Regulatory Commission (June 24, 1981)
GAO/OGC-81-2	The Nuclear Non-Proliferation Act of 1978 Should Be Selectively Modified (May 21, 1981)
GAO/EMD-80-118	Proposed Interim Consolidation of the Nuclear Regulatory Commission (September 11, 1980)
GAO/EMD-78-110	Areas Around Nuclear Facilities Should Be Better Prepared for Radiological Emergencies (March 30, 1979)

VI. GAO CONTACT

Daniel White (301) 353-3711

I. PPSSCC ISSUE AND SAVINGS

PPSSCC believes that improvements can be made in the management practices and organizational structure of the Tennessee Valley Authority (TVA) Office of Engineering Design and Construction (OEDC) to make TVA's construction program more effective and cost efficient.

PPSSCC estimates net savings from this issue and subsequent recommendations are expected to result in a 3-year savings of $120.2 million.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

Following its examination of management practices and organizational structure of TVA's OEDC, the PPSSCC made seven recommendations which called for organizational changes, reduced personnel levels, improved information exchange and decisionmaking processes, monetary quantification of management goals, incorporating successful features of other utility nuclear power plant construction programs into TVA's nuclear construction program, and eliminating existing cost control disincentives in TVA's rate setting and borrowing.

Based on past efforts examining TVA activities, GAO believes that improvements could be made in OEDC and that PPSSCC's recommended actions, overall, appear reasonable. For example, the recent reorganization has already reduced the level of personnel needed and fostered better decisionmaking and information exchange.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with PPSSCC's assessment that authority to implement its recommendations rest with TVA. Most, in fact, have already been implemented by TVA.

TVA has taken actions consistent with five of the seven PPSSCC recommendations. More specifically, a June 1984 reorganization merging the Office of Engineering Design and Construction with the Office of Power has reduced the number of personnel and enhanced the continuance of future personnel reductions as well as opened new channels of communications for exchange of information. TVA also has improved the decisionmaking process by incorporation of economic conditions, and, where calculable, placed monetary values on management goals.

On the other hand, TVA does not believe a comparison of its nuclear construction projects with those of other utilities is needed as recommended by the PPSSCC. TVA believes

that there are too many construction differences between nuclear projects, in as much as each nuclear unit is designed to meet the need of the individual utility. TVA also pointed out that its nuclear program has been substantially reduced and the four remaining nuclear units under construction are nearly completed. Thus, TVA sees no advantage to a comparison at this time.

GAO agrees with TVA that because its nuclear program has been reduced and only four units remain, which are nearly complete, the benefits derived from a comparison study may not be timely nor outweigh the cost of the study itself.

TVA also does not believe that any cost control disincentives exist due to its rate setting and borrowing practices. TVA believes its mandate to charge the lowest rate possible and borrow only when major expenditure is necessary are incentives for cost effective management practices.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The savings estimates provided by PPSSCC are based on its assumption that implementation of its recommendations will result in a one percent reduction of OEDC's fiscal year 1982 budget expenditures. Neither GAO or TVA can determine whether this assumed percentage reduction in OEDC's expenditures is accurate or reasonable. Once TVA completes implementation of the five PPSSCC recommendations with which it agrees, TVA will be able to determine a savings amount.

V. RELEVANT GAO REPORTS

GAO/RCED-83-123 Triennial Assessment of the Tennessee Valley Authority--Fiscal Years 1980-1982 (Apr. 15, 1983)

GAO/RCED-82-54 Tennessee Valley Authority--Options for Oversight (Mar. 19, 1982)

GAO/EMD-82-50 A Process To Determine Whether to Construct Projects In-House or by Private Contractor is Needed by the Tennessee Valley Authority (Mar. 15, 1982)

GAO/EMD-82-49 The Tennessee Valley Authority Needs to Develop a Formal Process for Determining Whether to Construct Projects In-House or by Private Contractor (Mar. 15, 1982)

VI. GAO CONTACT

Daniel White (301) 353-3711

I. PPSSCC ISSUE AND SAVINGS

PPSSCC believes that improvements can be made in the Tennessee Valley Authority's (TVA's) financing program to reduce TVA's financing costs as well as to reduce borrowings from the Federal Financing Bank (FFB) thereby directly reducing the financing burden on the U.S. Treasury.

Cumulative 3-year savings in TVA's interest costs are projected by the PPSSCC at $22.2 million.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATION

The PPSSCC concluded that improvements could be made in TVA's financing program and recommended that TVA obtain its short and long-term financing needs on the open market rather than through the FFB. According to the PPSSCC this would reduce TVA's interest costs, provide an additional oversight dimension to TVA's construction program, and reduce FFB's financing burden on the U.S. Treasury.

GAO questions the savings of TVA financing its long-term debt issues on the capital markets and its short-term debt issues in the discount note market as determined by PPSSCC. Based on material provided by TVA, TVA could incur higher interest costs by borrowing on the open market. TVA's experience during 1963-1974, when they borrowed on the open market, disclosed that the interest rates on their short-term borrowing averaged nearly one-half percent higher than the rates for comparable Treasury borrowings during the same period. Also, a TVA comparison of interest rates on long-term bonds from 1978 to 1983 showed that the rates averaged about 1.0 percent higher for triple A utility bonds, the most likely rate for TVA bonds, than for FFB borrowings.

GAO agrees that open market financing would add an oversight dimension to TVA's construction program that presently does not exist since neither FFB nor Treasury reviews TVA's financial status before buying TVA bonds except to assure TVA is within its statutory debt ceiling, currently set at $30 billion. However, GAO believes that additional oversight over TVA's financing program could more appropriately be achieved through greater congressional oversight. In a 1982 report, GAO presented to Congress a number of options for increasing oversight over TVA's financing program.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with PPSSCC's assessment that TVA currently has the authority to transfer its financing from the FFB to the open capital markets. However, since the TVA disagrees with the PPSSCC conclusion that it would be less costly to

finance the electric power system in the open market and therefore has not taken any action to implement the recommendation. Furthermore, TVA stated it would resist any actions to preclude financing its program through the FFB.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC based its savings calculations on TVA attaining a one-fourth percent lower interest rate on its borrowings in the open market. TVA asserts that when it had borrowed on the open market it was more costly than Treasury borrowings during the same period. In addition, even if this rate savings could be attained, the amount of savings would be significantly reduced because TVA's projected future borrowing needs have dropped to less than one-half the amount used to calculate the savings.

V. RELEVANT GAO REPORT

GAO/EMD-82-54 Tennessee Valley Authority--Options for Oversight (Mar. 19, 1982)

VI. GAO CONTACT

Daniel White (301) 353-3711

BUS-TVA 6: COAL PROCUREMENT

I. PPSSCC ISSUE AND SAVINGS

PPSSCC believes that changes can be made in Tennessee Valley Authority's (TVA's) coal procurement policies and practices to reduce the cost of fuel.

PPSSCC estimates that cost savings through more efficient and better planned procurement operations could amount to $42.7 million over 3 years.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

To improve TVA's coal procurement policies and practices, the PPSSCC recommended that TVA (1) create an Office of Fuel Supply, (2) institute an annual review of coal procurement plans, (3) develop more flexible bidding and award procedures, (4) limit acquisition of new coal reserves, and (5) open no new coal mines. Based on GAO's overall past efforts concerning TVA coal procurement, it believes such actions could contribute to lower fuel costs. There are similarities between the changes suggested by PPSSCC under this issue and recommendations contained in GAO's 1981 report on TVA coal procurement. In that report, GAO recommended that TVA revise its coal procurement practices and implement a better program of forward planning. Also, GAO recommended changes to improve TVA's method of contracting for coal and suggested that TVA proceed cautiously in developing additional reserves. TVA has taken action on GAO's recommendations.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with PPSSCC's assessment that authority to implement its recommendations under this issue rests with TVA. Further, most have already been implemented by TVA as discussed below.

Regarding TVA's coal reserves and mines, TVA reports it has limited acquisition of coal reserves and does not plan to acquire any new mines. Although TVA does not intend to sell any of its reserves at this time, it has initiated a limited leasing program of reserves that cannot be utilized in the foreseeable future.

Regarding TVA's bidding and award procedures for coal purchases, TVA developed a new bidding process and plans to implement the process the next time it needs to purchase coal. Under the new procedures, TVA will use a two-step advertising method as a means of eliminating proposals that are not competitive, from either a cost or technical viewpoint. Step two will consist of bid invitations being issued only to those bidders that submitted acceptable technical proposals under the initial bid.

For its future coal procurements, TVA has taken steps to improve its projected coal needs by refining its forecasting techniques and reinstituting biweekly coal planning meetings. According to TVA, the Office of Power provides the TVA Board and General Manager with an annual coal supply plan, along with quarterly updates. Further, that office also conducts an annual assessment of TVA's need for and utilization of coal reserves.

Finally, TVA reports that it does not intend to establish an Office of Fuel Supply as recommended by PPSSCC. TVA officials say their current organizational structure operates well and they do not believe that creating another organization will improve fuel supply planning. Although GAO has not addressed this issue in its audits, TVA's internal audit report dated June 1983 recommended that TVA retain its present organizational structure for coal management.

TVA officials state that changes already made in their coal procurement practices have resulted in lower coal costs. During fiscal year 1983, TVA's cost for delivered coal was 7.5 percent below the average of 11 neighboring utilities.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The dollar savings estimates provided by PPSSCC are based on its assumption that implementation of its recommendations will result in a 1 percent reduction for fuel costs. Neither GAO or TVA can determine whether this assumed percentage reduction in expenditures is reasonable.

V. RELEVANT GAO REPORTS

GAO/RCED-83-123	Triennial Assessment of the Tennessee Valley Authority--Fiscal Years 1980-1982 (Apr. 15, 1983)
GAO/EMD-81-65	TVA's Coal Procurement Practices--More Effective Management Needed (Aug. 14, 1981)

VI. GAO CONTACT

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BANK 41: CHANGE IN PROJECT SELECTION PROCESS

I. PPSSCC ISSUE AND ESTIMATED SAVINGS

Can administrative expenses at the U.S. Synthetic Fuels Corporation (SFC) be reduced (via a more efficient use of personnel resources) by changing from a procurement-type project solicitation/selection process to an "outreach-type" process?

The PPSSCC stated that through such actions SFC will not require the additional personnel resources that it had projected. The PPSSCC states this would reduce projected administrative expenses by $18.2 million over a 3-year period--$5.5 million in fiscal year 1983, $6.0 million in fiscal year 1984, and $6.7 million in fiscal year 1985.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC's issue and associated recommendations are not germane because SFC changed to an "outreach-type" project solicitation process in 1982 and consequently did not increase its personnel resources as projected. The SFC, as required by the Energy Security Act, initially used a competitive, procurement-type solicitation process to encourage open and free competition among companies proposing synthetic fuel projects for SFC financial assistance. From SFC's inception in August 1980 through 1982, it issued three general solicitations which invited any company interested in building a synthetic fuels project to submit a competitive proposal.

In October 1982, however, SFC began to use an "outreach-type" process when it issued the first of 6 targeted solicitations. This process specified the type of resource, technology, and geographical location of the project, and placed limits on the size and cost of the project, which reduced the number of possible project proposals submitted to SFC. With less proposals to evaluate, SFC did not increase its staff to projected levels thereby avoiding the personnel compensation expenditures attributable to such staff.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that the SFC has the authority, under the Energy Security Act, to submit and select projects for financial assistance using an outreach-type process. As stated above, SFC did adopt an outreach-type process in late 1982, which reduced the number of possible proposals that could be submitted and resulted in fewer staff being needed to evaluate proposals.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC's estimated savings of $18.2 million is made up of reductions on projected personnel compensation cost of $5.5 million in fiscal year 1983, $6.0 million in fiscal year 1984, and $6.7 million in fiscal year 1985 if SFC were to undertake an outreach program. GAO can not substantiate this amount of savings because GAO has not examined this issue in the past. However, as stated above, any reductions in projected personnel compensation costs are not attributable to the PPSSCC recommendation, but to SFC's internal decision to use outreach-type solicitation processes which occurred prior to the PPSSCC recommendation.

V. RELEVANT GAO REPORTS

None.

VI. GAO CONTACT

Daniel White (301) 353-3711

EPA 1: CONSTRUCTION GRANTS PROGRAM

I. PPSSCC ISSUE AND SAVINGS

"Do cost savings opportunities exist with respect to the Federal Government's strong management and implementation role in the construction grants program?"

program to states are estimated by PPSSCC at $46.3 million over a 3-year period. Most of the PPSSCC savings ($14 million a year) are based on a reduction of 350 full time employees from EPA as the states assume the program responsibilities.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

PPSSCC's recommendations that EPA (1) transfer the management of the construction grants program to states and (2) develop national construction grant program policy and oversee state implementation are based on the premise that the states which do not choose to accept delegation of construction grants responsibility should not receive any federal assistance from EPA for constructing wastewater treatment plants. Thus EPA, which currently operates the construction grants program for those states considered unable to operate it, could reduce its staff.

GAO agrees that the above PPSSCC recommendations have merit for reducing federal financial assistance. However, because some states may have legitimate reasons for not accepting program delegation, implementation of PPSSCC's recommendations may not always be feasible. If federal construction grant funds and other water pollution program activities are left with the states and the states cannot adequately ensure that the funds are properly expended or the activities are carried out, the water pollution cleanup effort will suffer, and the goals for protecting our nation's waters will not be met.

Further, PPSSCC's recommendation that the EPA Administrator study and propose to the Congress a plan to resolve inconsistencies among construction grant program needs, funding levels, and compliance deadlines does, in GAO's opinion, have merit. Both the Congress and EPA recognize that water pollution control facility construction needs exceed construction grant funding and that alternative financing is needed to supplement the grant program. To this end, the Administrator, EPA, is currently studying financing alternatives and the Congress is considering a grant/loan program as an alternative to the grant-only program now in effect. At the same time, EPA believes that funding should not be used as an excuse for

not achieving compliance and has developed a policy which requires all permittees to be in compliance by 1988, regardless of the availability of federal funding.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

PPSSCC states that its recommendations to direct the construction grants program to the states would require congressional action. GAO agrees that (because EPA is unable to make, and some states are unwilling to accept, the recommended delegations under existing authority) the Clean Water Act would have to be amended to accomplish the PPSSCC recommendations. GAO notes that such action has not been initiated at this time.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

PPSSCC's major premise for its cost savings estimate is based on the assumption that EPA's full time employee positions would be reduced by 350, once the construction grant program is directed to the states. While the complete transfer of the program to the states would result in some federal staff reductions, GAO is unable to comment on the accuracy of the savings estimate because the PPSSCC report is not clear or complete as to how the savings calculation was made.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

Hugh Wessinger 275-5489

EPA 2: DELEGATION

I. PPSSCC ISSUE AND SAVINGS

"Can the authorities and responsibilities of the Environmental Protection Agency (EPA) headquarters, regions, and the states be more clearly defined to encourage delegation to the regions and states and will cost savings result?"

Cost savings from accelerating the delegation of environmental programs to the states are estimated by PPSSCC at $17.8 million over a 3-year period. For the most part, PPSSCC's savings are based on reducing EPA's oversight role in the water program, which is estimated to reduce EPA staffing levels by 118 full time employees at a savings of $5.4 million annually.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO agrees that accelerating the delegation of environmental programs to the states and developing a uniform, well-defined oversight program for EPA could reduce federal spending and consequently eliminate inter-government duplication. EPA has already taken a number of steps in that direction and has achieved a high level of delegation. For instance, in the air pollution control area, government agencies assuming from 65 to 96 percent of the operational responsibilities of three natonal air pollution control programs. Further, EPA's Federal/State Relationships Task Force developed policies for all environmental program delegations and oversight which the Administrator signed in March 1984.

PPSSCC's recommendations have merit, but their impact are based on fully delegated programs which may not be practical. GAO's preliminary work in the air program area indicates that some state agencies do not have the technical capabilities to administer national environmental programs; in those cases EPA would be expected to continue its administrative role.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY AND STATUS

GAO agrees with PPSSCC that the recommendations made to accelerate the delegations of authority currently allowed can be implemented administratively within EPA. In fact, EPA has taken steps to increase delegations and define its oversight role. GAO beleives, however, that some state agencies do not have the capabilities necessary

to administer the national environmental programs, and efforts by EPA and the states to upgrade those state agencies' capabilities may be more costly than having EPA continue to administer the programs.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The major premise of the PPSSCC cost savings estimate is valid, as increased delegation of programs to states and decreased EPA oversight will definitely reduce federal spending.

The cost savings, however, could be too optimistic. They are based on the assumption that, once EPA's water pollution control programs are fully delegated, EPA's oversight functions can be reduced to no more than ten percent surveillance of the states' activities. This oversight reduction, in turn, is expected to reduce EPA's annual staffing requirements by 118 full time employees. Because full delegation may not be practical or advisable in all program areas due to inadequate staffing capabilities, it may not be possible for EPA to realize the magnitude of the savings envisioned by PPSSCC.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

Hugh Wessinger 275-5489

EPA 3: STATE ASSISTANCE PROGRAM GRANTS

I. PPSSCC ISSUE AND SAVINGS

"Could the present system of categorical environmental grants to the states be improved so as to promote innovative program management and reduce excessive reliance on Federal resources?"

Cost savings from consolidating categorical grants and phasing down federal funding levels are estimated by PPSSCC at $120 million over a 3-year period. PPSSCC's savings are based on reducing (1) the numerous grants into a single grant and (2) the federal funding level for state program grants to 25 percent of the total cost (as compared to the current 45 to 50 percent).

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO believes that full implementation of the recommendations under this issue could have a detrimental effect on EPA's overall environmental goals and mandates. For example, if categorical grants are combined into one block grant, then some air or water programs would be penalized if states decided to increase grant funds in other environmental programs such as hazardous waste. (EPA has reviewed this issue under its State Grants Task Force and has concluded that consolidation of categorical grants is not feasible at this time.) Further, many air program grantees are already providing 70 to 75 percent of the funding for their programs, so a reduction of federal funds to 25 percent as suggested by PPSSCC is already in effect for those grantees.

Regarding PPSSCC's recommendation to modify state-matching and level-of-effort requirements to correspond with federal funding reductions, GAO has addressed such requirements in the past and agrees that they need modifying. Currently, such laws as the Clean Water and Clean Air Acts require states to maintain their funding levels even if federal funds are reduced. According to PPSSCC, such requirements inhibit the states' flexibility to direct available resources to their environmental problems. Regarding PPSSCC's recommendation to support development of nonconventional revenue sources for state programs funding, EPA is reviewing this area. However, GAO has found that states' efforts to develop user fee systems to provide additional revenues have met with political and industrial opposition, compliance disincentive, added costs, and other unintended effects.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

PPSSCC recognized that efforts to revise the federal financial assistance programs and phase down the funding levels to the states would take 12 months planning before legislation could be introduced. GAO agrees that consolidation of categorical grants into block grants would require legislation. As previously noted, EPA has reviewed this issue and has concluded that it would not be feasible to consolidate categorical grants. Further, although EPA has taken no action regarding the phase down of federal funding levels, GAO has found that a number of air program grantees are already being funded at the level suggested by PPSSCC. Other grantees which rely heavily on the federal funds to operate their environmental programs may be forced to return their programs to EPA if the federal funds are reduced. Then, EPA will be required by law to administer those programs returned.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

PPSSCC estimates that the cost savings from reducing federal program funding to 25 percent (from the present 45 to 50 percent) would save $100 million with a time-phased transition of five years. While GAO agrees with the premise that reducing the federal funding level would save money in some cases, there are many grantees who are already being funded at the level suggested by PPSSCC. Further, a reduction of federal funds could have a detrimental effect on those states who could not make up for the reduction in federal funds, and EPA may be forced to take over those states' programs, at higher operational costs.

V. RELEVANT GAO REPORTS

GAO/RCED-83-75	Potential Impacts Of Reducing The Environmental Protection Agency's Budget (Dec. 30, 1982)
GAO/GGD-81-7	Proposed Changes In Federal Matching and Maintenance Of Effort Requirements For State And Local Governments (Dec. 23, 1980)

VI. GAO CONTACT

Hugh Wessinger 275-5489

EPA 4: PERMITTING PROCESS

I. PPSSCC ISSUE AND SAVINGS

"Can the permitting processes for the Resource Conservation and Recover Act (RCRA) and the National Pollutant Discharge Elimination System (NPDES) be accomplished at less cost and on a more timely basis?"

PPSSCC estimated cost savings at $91.4 million over a 3-year period from (1) using more class permits for treatment and storage of hazardous waste, (2) expanding the use of general permitting for minor dischargers of pollutants, (3) amending the Clean Water Act to extend the deadline for achievement of Best Available Technology (BAT) guidelines and to extend time limitations of NPDES permit life, and (4) discontinuing NPDES grants to unqualified states after FY 1985.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO agrees with PPSSCC that class permits under RCRA for certain hazardous waste treatment or storage facilities could have merit. Currently, each treatment or storage facility must submit a detailed permit application. EPA or an EPA-authorized state then must review the application and if appropriate develop a permit. EPA believes that the use of class permits for certain low risk facilities such as above-ground storage tanks would result in reduced application paper work because a standardized application form could be utilized. The standardized form would require less facility-specific information and would also entail a streamlined EPA or state review process.

GAO has no basis for commenting on the PPSSCC recommendation on issuing general permits to "minor" dischargers because it has not yet reviewed that area. However, GAO questions the practicality of the use of general permitting for minor dischargers because such permits establish pollution limits for a category of dischargers in a specific geographic region, rather than for individual dischargers. Thus, some minor dischargers with unique pollutants may not be fully covered under a general permit.

The Clean Water Act currently requires industrial dischargers to comply with EPA-developed BAT guidelines for toxic pollutants by July 1, 1984. Extending the deadline to July 1988, as recommended by PPSSCC, would provide time for NPDES permits to be developed using the guidelines and for industry to install needed pollution

control. Also, extending the NPDES permit life beyond the current 5-year limit, with periodic recall and review to ensure that the permit is still adequate to control pollution, would also be beneficial. The House passed H.R. 3282 in June 1984 which is in consonance with the PPSSCC, but no further legislative action was taken.

Regarding the PPSSCC recommendation for discontinuing NPDES grants after FY 1985 to unqualified states, GAO does not agree. The Clean Water Act provides for NPDES program delegation to those states that EPA determines can effectively administer the program. Where states are unable or unwilling to assume delegation, the Act provides for the federal government to administer the program. Implementing the PPSSCC recommendation would penalize those states that need continued federal funds to acquire staff and develop expertise to administer their programs.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY AND STATUS

PPSSCC stated that RCRA would have to be amended to allow for class permits. EPA believes that RCRA already allows for class permits and, on July 20, 1984, it issued a proposed rule establishing class permit application procedures for above-ground storage tanks.

PPSSCC also stated that the Clean Water Act would need to be amended to extend deadlines. In that regard, H.R. 3282 (98th Congress 2nd Session) was initiated to extend deadlines for the BAT and NPDES issues. The House passed the bill in June 1984 and forwarded it to the Senate, but no further action has been taken.

Regarding the discontinuance of NPDES grants, PPSSCC stated that it could be implemented within existing EPA authority, with congressional acceptance of the elimination of program grant funding to states that do not comply. PPSSCC also stated that the use of general permitting was within EPA authority, but such action would require Executive Office support. GAO agrees with the latter statement but believes that discontinuance of NPDES grants would require congressional action.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC estimated that RCRA class permits would save about $48.7 million over 3 years. EPA estimates a total $9.6 million savings for industry and $8 million savings for the government by utilizing class permits for above-ground storage facilities. EPA intends to review the feasibility of using class permits on other types of

treatment or storage facilities but has so far not made any additional cost savings projection. If class permits are feasible at other types of facilities, it appears to GAO that further cost savings could be realized.

GAO has no views on the cost savings estimate regarding expanded general permitting. PPSSCC made no specific estimate for the deadline extension issues. GAO has no basis to evaluate the savings estimate on discontinuing grants.

V. RELEVANT GAO REPORTS

GAO/RCED-83-168 Siting Of Hazardous Waste Landfills And Their Correlation With Racial And Economic Status of Surrounding Communities (June 1, 1983)

VI. GAO CONTACT

Hugh Wessinger 275-5489

EPA 5: CONTRACTING

I. PPSSCC ISSUE AND SAVINGS

"Are Environmental Protection Agency (EPA) contract award and management processes cost-effective with respect to internal time, resources, and program results?"

Cost savings from simplifying the contract procurement process and improving contract management are estimated by PPSSCC at $62.9 million over a 3-year period. PPSSCC's savings are based on combining 50 percent or more of the separate contract actions (thereby reducing 25 full time employees) and improving the efficiency of contracting procedures by five percent.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

PPSSCC concluded that EPA was not providing adequate management of its contractors. PPSSCC estimates that increased oversight, improved controls and the use of better trained project managers would result in savings of $59 million. GAO agrees that EPA needs to improve its oversight and control of contracted activities by developing inhouse cost estimates and performance specifications and by evaluating the final products of its contractors. However, GAO believes that these actions would probably result in higher quality work, not cost savings.

EPA's primary use of contractors is for management support services such as research and data collection. A recent GAO report noted that improved contracting controls should result in higher quality work which better meets EPA's needs but not necessarily at lower cost, since improved contract management would require increased staff resources to manage contracts.

PPSSCC assumes a cost savings of $3.9 million from consolidating similar small contracts into larger contracts which would reduce staff time for awarding contracts. Although this approach has the potential to produce some savings, GAO believes its potential is limited because, as PPSSCC notes, many of EPA's small contracts are used to increase contract awards to minority-owned businesses. This requirement is a separate contracting responsibility of the agency used to further overall government policy. The Congress, in establishing this goal, recognized that it might in some cases result in reduced competition, and the lower costs provided by competition might not be realized.

An additional consideration is that EPA already purchases the vast majority of its support through large contracts. Since 1976, EPA has been implementing a policy of mission support contracting which is intended to consolidate contracts to the maximum feasible extent.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

PPSSCC concludes that EPA can implement its recommendations based on its own executive authority. In GAO's opinion, PPSSCC is correct, as EPA has adequate authority to improve contract management controls and consolidate contracts. However, GAO questions whether EPA can substantially increase the consolidation of its contracts, as its current policy intends to consolidate to the maximum extent. However, GAO believes it is feasible for EPA to improve contract management.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

In GAO's opinion, the savings estimate is probably overstated. The bulk of the savings ($59 million) is estimated to come from improved contract management. However, as GAO noted in a recent report, improving contract management could possibly result in an increase in spending as such improvements could require additional EPA resources to better manage its contracts and increased administrative costs on the part of the contractor. Further, the savings from better controlled work should result in more indepth analysis and research of higher quality, but not necessarily at less contract cost.

V. RELEVANT GAO REPORTS

GAO/RCED-85-12 The Environmental Protection Agency Should Better Manage Its Use of Contractors (Jan. 4, 1985)

VI. GAO CONTACT

Hugh Wessinger 275-5489

EPA 6: REGIONAL LABORATORIES

I. PPSSCC ISSUE AND SAVINGS

"Would consolidation of regional laboratories provide the required technical support at less cost?"

Cost savings from closing and combining EPA's regional laboratories are estimated by PPSSCC at $21.4 million over a 3-year period (after a one-time cost of $9.6 million). In addition, PPSSCC expects that the consolidation of those laboratories will, among other things, make more effective use of personnel and equipment.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO believes that the consolidation of regional laboratories, if underutilized, could possibly make more effective use of personnel and equipment. However, a Federal Coordinating Committee on Science, Engineering and Technology study on federal laboratories concluded that "decisions to close or consolidate laboratories have been politically difficult and will likely remain so." Based on that study conclusion, EPA has taken no action to close or consolidate any of the regional laboratories as suggested by PPSSCC.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with PPSSCC that closing or consolidating regional laboratories is within the authority of EPA. However, EPA may need to work with the Congress to avoid mandated appropriations for those laboratories EPA wishes to close. EPA currently believes that such action is not politically feasible, and the agency has no plans to implement the PPSSCC recommendation.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

PPSSCC's cost savings estimate consisted of closing six underutilized regional laboratories and combining their activities with other EPA laboratories to make for more efficient use of facilities. GAO believes that savings would be realized by such action, but GAO has no basis for determining whether PPSSCC's estimates are reasonable.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

Hugh Wessinger 275-5489

EPA 7: RESEARCH

I. PPSSCC ISSUE AND SAVINGS

"Can the productivity and cost-effectiveness of EPA's $200 million annual research effort be improved?"

Cost savings from (1) centralizing a research data base and eliminating duplicative literature searches, (2) ceasing to fund the Centers of Excellence, (3) eliminating the Office of Research Grants and Centers, and (4) conducting more cooperative research agreements inhouse are estimated by PPSSCC at $34.6 million over a 3-year period. PPSSCC did not estimate savings due to developing a five-year research strategy.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO agrees that EPA's research efforts can be improved, based on past review work in this area. In response to part of the PPSSCC recommendations, EPA is implementing a centralized data base to serve as a clearinghouse of EPA research results, improving accessibility and efficiency. EPA has also developed a five-year research strategy which it updates annually with the program offices. Such a research strategy is consistent with a GAO report recommendation made to EPA in 1981, and it could help to prevent duplicate research efforts.

PPSSCC's recommendation to cease funding the Centers of Excellence program, which EPA established in 1979 to build up environmental expertise outside the government, has not been carried out, as EPA plans to retain the Centers for a long-range research study.

GAO has done no review work related to the PPSSCC recommendations to eliminate the Office of Research Grants and Centers and to conduct more cooperative research agreements inhouse; therefore, GAO cannot comment on those areas.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO believes that most of the PPSSCC recommendations can be carried out within the authority of EPA, as indicated by PPSSCC. However, PPSSCC stated that the recommendation to cease funding the Centers of Excellence program would require congressional action because such action would reduce the research budget the Congress approves. EPA has taken no action to address the latter recommendation.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The major premise of the PPSSCC cost savings estimate is based on (1) eliminating one-half of the literature searches as a result of implementing a tracking and inventory system, (2) eliminating the funds for eight Centers of Excellence and reducing the staff levels in the Office of Research Grants and Centers, and (3) conducting an additional 25 percent of cooperative research agreements inhouse. GAO believes that PPSSCC's cost savings estimates are valid if this major premise is carried out as PPSSCC anticipates. However, because EPA plans to retain the Centers of Excellence for a long-term study, a major savings element ($11.2 million) may not be realized.

V. RELEVANT GAO REPORTS

GAO/CED-81-124 EPA's New Research Controls: Problems Remain (July 14, 1981)

VI. GAO CONTACT

Hugh Wessinger 275-5489

EPA 8: RESEARCH LABORATORY CLOSINGS

I. PPSSCC ISSUE AND SAVINGS

"Do any valid operational or managerial reasons exist to continue the operations of the Office of Research and Development (ORD) laboratory in Ada, Oklahoma, and the Large Lakes Research Station in Grosse Ile, Michigan?"

Cost savings from closing the Ada, Oklahoma research laboratory and Grosse Ile, Michigan field station and consolidating their activities with other offices are estimated by PPSSCC at $6.4 million over a 3-year period.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO agrees that cost savings could possibly be realized by closing and consolidating research laboratories, as discussed in PPSSCC's issue on regional laboratories, (EPA 6). According to PPSSCC, EPA had previously recommended closing the Ada and Grosse Ile laboratories, but so far such action had been blocked by the Congress. Also, EPA participated in a Federal Coordinating Committee on Science, Engineering and Technology study which concluded that "decisions to close or consolidate laboratories have been politically difficult and will likely remain so." With this present philosophy, it appears questionable that these PPSSCC recommendations could be carried out.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

PPSSCC states that EPA should renew efforts to obtain strong support from the executive office and persuade the Congress to close the Ada and Grosse Ile laboratories and transfer the staff and functions to other research offices in Cincinnati and Duluth, respectively. GAO has not analyzed the need for the various research centers, so it cannot comment on the PPSSCC statement. At present, EPA is not planning to implement these PPSSCC recommendations.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The major premise of the PPSSCC cost savings estimate is based on closing the Ada and Grosse Ile facilities and thus reducing operating expenses. In GAO's opinion, some savings would be realized if the closings occur, but GAO has no basis for measuring the accuracy of the PPSSCC cost savings estimates.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

Hugh Wessinger 275-5489

CONST 1: INTEGRATE ENVIRONMENTAL REVIEWS

I. PPSSCC ISSUE AND SAVINGS

"Can federal construction costs and time delays be reduced by integrating the National Environmental Policy Act (NEPA) process with other special purpose environmental review requirements in all federal agencies having construction programs?"

Cost savings from integrating environmental reviews to the maximum extent possible are estimated by PPSSCC at $338.9 million over three years. PPSSCC's savings are based on eliminating 819 duplicative special purpose reviews each year among the federal agencies, at an estimated $125,000 per review.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The concept of integrating special purpose environmental reviews into the overall review required by the National Environmental Policy Act (NEPA) could have merit in some cases. The NEPA process provides a comprehensive framework for reviewing environmental impacts of construction grant programs. In addition, an estimated 44 other special purpose environmental laws (such as the Clean Water and Clean Air Acts) also require reviews. These requirements could at times cause duplicative and overlapping environmental reviews.

In GAO's opinion, there could be a number of problems with integrating special purpose environmental reviews which should be addressed. One potential problem is that the need for special purpose reviews is in some cases found as part of the NEPA review and in some cases after the NEPA review is completed. If the need for a special purpose review is found during or after the NEPA review, then it may be too late to consolidate the special purpose review with the NEPA review. Another potential difficulty is that special purpose reviews may require more detailed study than the NEPA review (see CONST-8). Thus, some of the additional costs for special purpose reviews would remain even if the reviews were integrated.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with PPSSCC that this recommendation could be implemented by executive action. Further, GAO believes the recommendation is feasible but it knows of no action by any agency other than the Department of the Interior to implement this recommendation.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

In GAO's opinion, the estimated savings could be overstated. This opinion is based on the Department of the Interior's estimate that no savings resulted from implementing this recommendation in the National Park Service. Further, no clear basis is presented by PPSSCC for its estimate of the number of special purpose reviews that are made in the federal agencies, and PPSSCC estimates assume that the cost of all special purpose reviews would be completely eliminated.

As PPSSCC notes, even if the recommendations were adopted, some special purpose reviews would still be required. Further, an integrated review would reduce but not eliminate the need for the work required by the special purpose reviews. As a result, the recommendation could achieve some cost savings but not the complete cost avoidance used in the PPSSCC estimate.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

Hugh Wessinger 275-5489

CONST 2: REVISE CEQ REGULATIONS FOR ENVIRONMENTAL IMPACT STATEMENT (EIS) ALTERNATIVES

I. PPSSCC ISSUE AND SAVINGS

"Should the Council on Environmental Quality's (CEQ) regulations for implementing the procedural provisions of the National Environmental Policy Act (NEPA) be revised to reduce the range of alternatives that must be considered in Environmental Impact Statements (EIS)?"

Savings from reducing EIS preparation costs by 5 to 10 percent annually are estimated by PPSSCC at $33.1 million over three years. Also, PPSSCC stated that delays and costs due to litigation could be reduced by a substantial but unquantifiable amount, once regulations have been revised to delete the requirement that EIS's include reasonable alternatives not within the jurisdiction of the lead agency or permit applicant.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

PPSSCC recommends eliminating an analysis of project alternatives when the alternatives are not in the lead agency's authority. In essence, if the agency responsible for nuclear power plant regulation were considering a nuclear power plant it would not consider coal or other types of plants or, in the PPSSCC example, if a highway were being evaluated the agency would not have to look at public transportation as an alternative.

This recommendation would result in a substantial reduction in alternatives considered in construction environmental reviews. However, the recommendation could increase, not decrease, litigation costs as envisioned by PPSSCC. This would occur as various public groups file suits based on alternatives not explored by the agency. The potential for litigation would remain even if NEPA's regulations were revised by the Congress because public groups could, in many cases, base litigation on other environmental legislation. Further, the government would have greater difficulty in its litigation cases because it would not have even considered the alternative. In addition, it would seem possible that the examination of alternatives could in some cases identify less costly alternatives to the original proposal at a savings to the government.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

PPSSCC indicates that congressional action would be required to implement its recommendation, and GAO agrees. The recommendation, however, could weaken the protection of the environment intended by the Congress. The intent of NEPA is to ensure that reasonable alternatives be reviewed to ensure that the least environmentally damaging approach be taken. To date, no action has been initiated to have NEPA amended to address this issue.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

PPSSCC provides insufficient documentation to support its estimated cost of alternative considerations or of the savings to be gained by their elimination. In GAO's opinion, the recommendation, if implemented, might increase federal litigation costs, possibly in excess of any potential savings. GAO is also concerned that the recommendation might increase costs because, in some cases, the alternative analysis may result in a lower cost alternative which results in cost savings. The PPSSCC recommendation assumes that the examination of reasonable alternatives only results in increased costs without any offsetting benefits. This may be the case, but PPSSCC provides no support for such a conclusion.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

Hugh Wessinger 275-5489

CONST 3: INCREASE USE OF NEPA CATEGORICAL EXCLUSIONS

I. PPSSCC ISSUE AND SAVINGS

"Can the use of categorical exclusions, permitted under the Council of Environmental Quality's (CEQ) 1978 regulations for implementing procedural provisions of the National Environmental Policy Act (NEPA), be increased in order to reduce drastically the number of much more costly environmental assessments (EA)?"

Cost savings from reducing the number of environmental assessments by 50 percent (and subsequently reducing staff by approximately 250) are estimated by PPSSCC at $33.1 million over three years. According to PPSSCC, the reductions would occur by CEQ revising its regulations to require greater use of generic and flexible categorical exclusions.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

In GAO's opinion, the PPSSCC recommendation provides no evidence that the extension of categorical exclusions is warranted. A categorical exclusion is the term applied to a category of actions which do not individually or cumulatively have significant impact on the environment. As a result, federal agencies are not required to prepare an environmental impact statement when carrying out an action which has a categorical exclusion. Until evidence is available to demonstrate that this can be done without environmental harm, GAO is concerned that the level of protection currently intended by the Congress may be reduced. PPSSCC provides no rationale for this action other than the desire to reduce the number of environmental reviews.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

PPSSCC believes this recommendation can be implemented by executive action. Although CEQ has the authority to implement this recommendation, GAO believes that the change is significant enough to warrant a demonstration that it can be made without adversely affecting environmental protection.

The PPSSCC view that CEQ can reduce environmental assessments by 50 percent is technically correct. In fact, according to an assistant secretary for policy, budget, and administration in the Department of the Interior, implementation of this recommendation based on executive action has already dropped the number of

environmental assessments in that Department from 20,000 to 10,000. Without evidence that the change will not result in harm to the environment, however, (and none is provided), its implementation governmentwide is probably not feasible. We discussed with Department of the Interior officials the effect on environmental protection of reducing the number of reviews, but the Department had not yet evaluated this effect.

The Department of the Interior's administrative implementations of this recommendation have produced mixed results. Interior concluded that reducing the number of assessments by 50 percent did reduce paperwork and increased the time given to those assessments which were performed. Interior found, however, that most of these assessments required limited work and only a few staff days to prepare. Further, these assessments were performed by hundreds of Department of the Interior employees throughout the U.S. in addition to their other duties. As a result, Interior found it achieved no reduction in staff and anticipates no cost savings.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

PPSSCC's cost savings estimate assumes that small incremental reductions in manpower over 19 agencies will result in a reduction-in-force of 250 employees. No evidence is provided, however, to support such a conclusion. Further, the Department of the Interior which did reduce its environmental assessments by 50 percent found it produced no reduction in force. Interior did, however, note benefits from the change, primarily in reduced paperwork.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

Hugh Wessinger 275-5489

CONST 4: RESTRICT MULTIPLE ENVIRONMENTAL IMPACT STATEMENT (EIS) REVIEWS

I. PPSSCC ISSUE AND SAVINGS

"Should Congress restrict the number and scope of multiple reviews of environmental impact statements (EIS) and environmental assessments (EA) by administrative agencies and the courts, by requiring the scoping process at the preliminary stages of planning and environmental review to raise any and all issues and objections?"

Cost savings from restricting the number and scope of successive EIS's and their reviews, and improving scoping methods on all applicable projects, are estimated by PPSSCC at $26.5 million over three years.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The use of scoping in preparing environmental impact statements appears to have potential for decreasing the number of supplementary reviews after the original study is completed. The scoping process is in essence the use of better planning by having all concerned parties participate in developing the scope of the original study. This process can reduce costs by having the reviews done at one time, which should also result in increased management efficiencies. In addition, as PPSSCC notes, it may reduce social and political tension by having all involved parties participate at the beginning of the process so that their concerns are included.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with PPSSCC that the recommendation on improving scoping methods on applicable projects can be implemented by the executive branch. Prior to making any detailed environmental assessments, responsible federal officials are required to consult with and obtain comments of any federal agency with jurisdiction or special expertise with respect to any impact involved.

One difficulty with assessing the feasibility of the process is the lack of actual practice with the technique. As PPSSCC notes in its report, the technique has been studied but primarily in theory. Until actual experience on selected test cases is available, it will be difficult to assess the usefulness of the concept. Agency officials questioned on the process by CEQ's staff did point out the difficulty of involving parties with divergent views and that the public is often confused by the

purpose of the scoping phase. Further, the Department of the Interior reviewed its environmental assessments to determine the primary cause of having to prepare new environmental studies. Interior, as part of that review, found the primary cause of having to prepare new assessments was design changes by the construction applicant, not inadequate scoping. When the construction design is changed, a new assessment is required. Further, since the Department is only beginning to use this technique, it is not yet possible to evaluate its effect.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO has insufficient evidence to determine if the estimated savings are realistic. PPSSCC does not provide cost comparison information from projects which used this technique. Until the use of a more comprehensive scoping process has been tried and the results analyzed it will not be possible to assess the cost impact, if any, of this approach. GAO also noted that the estimated savings from reviews which are eliminated is not offset against the costs (unknown) of expanded and more elaborate planning. In spite of the uncertainty that this process will result in savings, GAO believes it has merit and should be considered for implementation. The use of better initial planning seems to have potential to result in better environmental assessments even if no savings are realized.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

Hugh Wessinger 275-5489

CONST 11: AMEND SAFE DRINKING WATER ACT

I. PPSSCC ISSUE AND SAVINGS

"Should the Safe Drinking Water Act be amended and existing procedures modified to eliminate the Environmental Protection Agency (EPA) veto power over projects and programs and to rely instead on the National Environmental Policy Act (NEPA) process to address aquifer contamination issues?"

Cost savings from amending the Safe Drinking Water Act to eliminate the EPA veto power and modifying the existing procedures to rely solely on the NEPA process to address aquifer contamination issues are estimated by PPSSCC at $1.6 million over three years. PPSSCC's savings are based on a reduction of ten staff years at $50,000.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

PPSSCC believes that NEPA procedures are an effective and efficient means of voicing concern over aquifer contamination. It thus recommends that the Safe Drinking Water Act be amended to eliminate EPA's veto power over federal projects affecting sole-source aquifers (i.e., the only available drinking water source). GAO does not agree with this recommendation. The Safe Drinking Water Act contains the veto power for EPA so that sole-source aquifers are protected until states can implement programs to protect those aquifers.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC recommendation would require an amendment to the Safe Drinking Water Act. EPA has not proposed any such amendment at this time. While GAO agrees that congressional action would be required, it disagrees with the PPSSCC position. NEPA provides EPA with the opportunity to voice its concerns over sole-source aquifer contamination but does not give EPA any recourse if it is not satisfied with actions taken to address the concerns. The veto power under the Safe Drinking Water Act gives EPA this recourse.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

PPSSCC estimated that its recommendation would save $1.6 million over three years based on an annual reduction of ten staff years. GAO has insufficient evidence to determine if those staff year savings would be attained.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

Hugh Wessinger 275-5489

CONST 20: IMPROVE EFFECTIVENESS OF ON-SITE MANAGEMENT PRESENCE IN ENVIRONMENTAL PROTECTION AGENCY (EPA) CONSTRUCTION GRANTS PROGRAM

I. PPSSCC ISSUE AND SAVINGS

"What steps should be taken to improve inspection procedures, quality control, and assurance of compliance with contract and grant terms at projects funded by the Environmental Protection Agency's (EPA) construction grants program?"

PPSSCC provided no dollar savings for this issue. However, PPSSCC stated that more effective use of taxpayers' dollars would result from improved procedures for ensuring that adequate quality control provisions are incorporated into the programs at the state level and in all grantee agreements.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

PPSSCC reported that the quality of wastewater treatment plant construction under the construction grants program has suffered because of inadequate quality control procedures. PPSSCC recommended that EPA should review state delegation agreements--which detail the state's responsibilities for administering the construction grant program--to assure that adequate quality control procedures are incorporated into state programs and in grantee agreements.

GAO agrees that PPSSCC's recommendation of defining the roles, responsibilities, authorities and liabilities of all parties in construction projects would be the first step in assessing the adequacy of the inspection program for the treatment plant construction. The agreements, however sound and complete they are, would not preclude poor inspections by resident inspectors, poor monitoring by the state or Corps of Engineers, or inadequate recordkeeping by resident inspectors. These problems, which are the types of problems GAO reported in January 1983 to the EPA Administrator, can only be avoided and overcome by effective monitoring and oversight by EPA or the state.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC recommendation may help to improve the effectiveness of on-site management of treatment plant construction and could be adopted by EPA. Currently, however, EPA has not adopted specific procedures that the PPSSCC recommendation would entail.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

PPSSCC provided no savings estimate.

V. RELEVANT GAO REPORTS

GAO/RCED-83-73 Better Procedures Needed For Inspections At Sewage Treatment Construction Projects (Jan. 26, 1983)

VI. GAO CONTACT

Hugh Wessinger 275-5489

CONST 22: ENCOURAGE PRIVATIZATION OF WASTEWATER TREATMENT FACILITIES

I. PPSSCC ISSUE AND SAVINGS

"Is privatization (private sector financing, design, construction, and/or ownership) of wastewater treatment plants a viable option to reduce local and state dependence on the Federal Environmental Protection Agency's (EPA) construction grants program?"

PPSSCC provided no dollar savings for this issue. However, PPSSCC stated that privatization of wastewater treatment plants would lessen the burden on the federal construction grants program, improve water quality, and preserve local bonding capacity for other important needs. Also, PPSSCC stated that, because a private sector firm would not be federally constrained, it would more likely construct a facility in less time and at less cost than a municipality.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO's preliminary survey work on privatization has shown that the concept has merit and is a potential financing alternative. As few municipalities have tried privatization, there is not yet sufficient data available to assess its impact/potential.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO believes that adopting the recommendation may require both congressional and executive action. Some state and local laws may effectively limit the use of privatization if they are not voluntarily modified. For example, state or local laws may require competitive bidding and prohibit negotiated contracts used in privatization transactions. In those cases where such laws are not changed, congressional action could be required.

Also, treatment works that have received federal financial assistance and are dependent on private funding for expanding or upgrading facilities must currently comply with the Office of Management and Budget (OMB) Circular A-102. This circular prohibits the title of federally-assisted projects from being transferred to the private sector, but it could be revised by executive action.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

PPSSCC made no savings estimate.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

Hugh Wessinger 275-5489

I. PPSSCC ISSUE AND SAVINGS

Can improved organization and administrative functions at HUD result in additional cost-saving opportunities?

PPSSCC estimated that implementation of the improved functions will save an estimated $69.6 million over a three-year period.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

PPSSCC believes that HUD could eliminate overlap, duplication, and unnecessary management layering and achieve cost savings through more effective organization. In particular, PPSSCC noted declining workloads in major program areas, excessive administrative staff in many of the program and staff offices, and significant overlap and duplication of administrative and support services and in policy analysis and evaluation activities.

Key recommendations expressed by PPSSCC were that HUD (1) review all major organizational units--with a focus on function and organization, staffing levels management, and operational effectiveness--to identify and eliminate duplication and overlap of administrative efforts, (2) hold agency managers accountable for proper organizational management, and (3) proceed with its proposed field reorganization plan.

GAO agrees that the Department's effectiveness could be improved through better organization, and, in a 1984 report (GAO/RCED-84-9) evaluating the overall management efficiency of the Department, made a number of recommendations regarding organizational matters. These recommendations included the need to determine and allocate workforce requirements, to assess productivity, and to consider various alternatives for enhancing managerial accountability, including the creation of the position of Under Secretary for Management.

Contrary to PPSSCC's recommendation that HUD implement its proposed field reorganization, GAO, in two 1983 reports (GAO/RCED-83-100 and GAO/RCED-83-155) and in a May 1983 testimony, disagreed with the proposed reorganization and recommended that HUD reevaluate its proposal. GAO believed the proposal overstated potential savings and failed to properly address concerns over the reorganization's impact on HUD clientele, possible changes in housing programs and policies, and existing management problems. After HUD subsequently implemented the field reorganization, GAO, in its 1984 report on HUD management,

recommended that HUD evaluate how well the new field structure was working in addressing the identified management problems of the organization.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

Within the broad framework set by Congress, the PPSSCC proposals could be implemented under existing agency authority and would not require legislative changes. However, informal restrictions of the Secretary's authority have been imposed by the Congress regarding major reorganizations and reductions. The House and Senate Appropriations Committees have asked to be informed of any organizational changes prior to their implementation. They have also asked that shifts of staff exceeding 5 percent among major budget and/or program activities be cleared beforehand. Further restrictions were imposed by the "Dole Amendment" (section 7(p) of the Department of Housing and Urban Development Act, as amended) which requires that a cost-benefit analysis be performed and published in the Federal Register for any HUD field office reorganizations.

Implementation of the PPSSCC recommendations would require the formation of high-level evaluation teams to identify and propose solutions to existing organizational problems. Formation of such teams should not create significant problems for the Department nor involve the expenditure of significant resources.

The Department was generally in agreement with the PPSSCC recommendations and has begun to implement them or modified versions of them.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

Although GAO did not conduct a detailed analysis of the Commission's savings estimates, the approach and methodology used by PPSSCC to develop those estimates appears to be reasonable. In commenting on the PPSSCC's recommendations, however, HUD reduced the estimated savings by about $15 million, noting that PPSSCC had overestimated staff and space savings which might be expected to result from implementation of the recommendations.

V. RELEVANT GAO REPORTS

GAO/RCED-84-9	Increasing The Department Of Housing And Urban Development's Effectiveness Through Improved Management (Jan. 10, 1984)

GAO/RCED-83-155	Impact Of The Department Of Housing And Urban Development's Proposed Consolidation Of Its Field Offices In The Dallas And Fort Worth, Texas, Area (May 19, 1983)
GAO/RCED-83-100	Impact Of The Department Of Housing And Urban Development's Proposed Consolidation Plan On Tennessee (Feb. 25, 1983)
Testimony	The Department of Housing and Urban Development's Proposed Field Office Reorganization by J. Dexter Peach before the House Committee on Banking, Finance and Urban Affairs, Subcommittee on Housing and Community Development (May 26, 1983)

VI. GAO CONTACT

John Luke 275-6111

I. PPSSCC ISSUE AND SAVINGS

Should the Department of Housing and Urban Development (HUD) and the Government National Mortgage Association (GNMA) continue to sell mortgages which they must by law acquire under various tandem plans and through property foreclosures to the private market, to the Federal Financing Bank (FFB), or both?

PPSSCC estimates that revenues from using the FFB as a warehouse/owner of acquired mortgages would be $109.2 million over a three-year period.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

Controversy exists as to whether HUD and GNMA should hold the mortgages they acquire or should sell them to the private market. While sales of mortgages to the private market have been undertaken to increase revenues and thus minimize the impact of the various programs on the federal budget, concerns have been expressed by HUD personnel that such sales create the possibilities of undue enrichment for purchasers and are extremely costly to the Government. Sales to the private market are made at huge discounts and insurance payments are made at near par. There is also the potential for paying off mortgages at large discounts in order to convert rental properties to more profitable uses.

PPSSCC recommended that the FFB be substituted for the private market, thereby accomplishing the Administration's budgetary goals while retaining for the Government the value of the mortgages, curbing potential abuses, and possibly capturing significant profits from the difference between the Government's cost of capital and the yield on GNMA and HUD mortgages.

GAO agrees that if the choice is between the sale of mortgages to the private sector or to the FFB, then choosing the FFB is preferable. Treasury can borrow funds and relend them to the FFB to finance a mortgage portfolio at less cost than HUD and GNMA can raise funds through the sales of mortgages in the private market. In addition, selling the mortgages to the FFB would retain the mortgages for the Government's long-term benefit and would preclude abuses arising from their sale to the private market. In terms of current budgetary accounting, HUD and GNMA would continue to meet their budgetary goals by selling to the "off-budget" FFB just as if they were selling to the private market. On several occasions, however, GAO has recommended against continuing the off-budget status of the FFB because it leads to understating the budget totals.

Budgetary considerations aside, the same objectives could be realized whether HUD and GNMA sell the mortgages to the FFB or hold them themselves. In either case, Treasury would provide the financing and the assets would be held by the Government.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The proposal could be implemented under existing agency authority and would not require legislative changes.

Sales of mortgages to the FFB as suggested could be accomplished after the necessary agreements are worked out between HUD, GNMA, the Department of the Treasury, and OMB. Although not discussed by PPSSCC, consideration would have to be given to servicing (i.e., providing the services normally provided by mortgagees such as maintaining financial records on each mortgage, collecting mortgage payments, inducing mortgagors to make timely payments, and initiating foreclosure actions) those mortgages not sold to the private market. As of October 1984, this recommendation has not been implemented.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO believes that the approach and methodology used by PPSSCC--comparing the actual average yields obtained by investors from the auction sale of GNMA-held mortgages over the previous year with market yields on 10-year Treasury obligations, and applying this spread to the estimated value of loans to be sold in future years--is reasonable.

However, it appears that PPSSCC overestimated HUD and GNMA loan sales--and consequently the additional revenues which could be realized by implementing the proposal--during the 3-year period studied. Specifically, for the years 1983 through 1985, PPSSCC projected additional revenues on the basis of an average of approximately $3.6 billion in loan sales annually. In 1983, however, only $2.9 billion in loans were sold, and in 1984 and 1985, sales of $2.3 billion and $2.1 billion, respectively, are being projected. Using this 3-year average of $2.4 billion in sales per year, GAO projected that the three-year revenues would be $73 million, as contrasted to the $109.2 million estimated by PPSSCC.

V. RELEVANT GAO REPORTS

GAO/PAD-81-36 **Federal Budget Concepts And Procedures Can Be Further Strengthened (Mar. 31, 1981)**

GAO/PAD-81-22	Federal Budget Totals Are Understated Because Of Current Budget Practices (Dec. 31, 1980)
GAO/PAD-77-70	Government Agency Transactions With The Federal Financing Bank Should Be Included On The Budget (Aug. 3, 1977)

VI. GAO CONTACT

John Luke 275-6111

HUD 7: MULTIFAMILY MORTGAGE ASSIGNMENTS

I. PPSSCC ISSUE AND SAVINGS

Could the number of insured multifamily mortgages that default and revert to the Department of Housing and Urban Development (HUD) be reduced?

The PPSSCC estimated that $89.4 million could be saved over three years.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

HUD insures loans made by private lending institutions for the development and rehabilitation of multifamily rental housing projects. For varying reasons, many owners of these insured projects default on their mortgage payments. When this occurs, HUD pays the lender most of the unpaid mortgage balance and the mortgage is "assigned" to HUD. Once the mortgage has been assigned, HUD takes over the responsibilities and tasks previously performed by the lender and attempts to bring the project's debt service current. If these efforts fail, HUD forecloses on the project and obtains ownership.

HUD incurs significant costs and losses to its insurance fund resulting from the default and assignment of multifamily housing projects. For example, in fiscal year 1983 about $141 million in claims were incurred as a result of multifamily mortgage defaults. At the close of fiscal year 1983, HUD had an inventory of 1,382 assigned multifamily projects containing about 186,500 units. The unpaid mortgage balance on this inventory was about $3 billion.

PPSSCC made numerous recommendations for improving HUD's servicing of insured and assigned multifamily mortgages. The recommendations include requiring earlier notification by lenders of mortgage defaults, making greater use of short-term loans to prevent defaults, encouraging the sale of troubled projects to owners with more substantial financial resources, implementing a more stringent policy for reinstating delinquent mortgages and for foreclosing on properties, implementing a mandatory system for identifying troubled projects, developing a model for cost-effectively allocating subsidy funds to prevent defaults, and reorganizing the loan servicing staffs in the field offices.

Although GAO has performed limited work relating to the specific issues raised by PPSSCC, GAO agrees with the general thrust of their recommendations. In a January 1980 report on multifamily assigned mortgages (GAO/CED-80-43), GAO reported that improvements were needed in

the servicing of multifamily assigned mortgages. Of particular concern was the large number of delinquent mortgages that were neither in foreclosure nor under a plan to reinstate the mortgages. GAO agrees that HUD should have a more stringent policy for negotiating mortgage reinstatement plans and provide appropriate training to carry this out. In a March 1983 report on HUD's plans to contract-out the loan servicing function for multifamily assigned mortgages, (GAO/RCED-83-78), GAO specifically cited the need for HUD to establish additional criteria and standards and to improve staff expertise for developing mortgage reinstatement plans or recommending foreclosure.

Also, GAO issued a report in November 1984 on HUD's Section 8 Loan Management Set-Aside Program (GAO/RCED-85-29), which provides financial assistance to insured projects to help prevent their assignment or, in the case of assigned projects, their acquisition. GAO recommended that HUD develop a methodology to allow it to measure and compare the cost-effectiveness of using section 8 loan management funds on HUD insured versus assigned projects. Therefore, GAO is in general agreement with the need to consider the cost-effectiveness of providing subsidies to prevent mortgage assignments and acquisitions.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO believes that the PPSSCC recommendations are feasible and can be implemented under existing agency authority.

HUD is in general agreement with the PPSSCC recommendations and several actions have been initiated to address their implementation.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The approach and methodology used by PPSSCC to estimate projected savings appears to be reasonable. However, the 3-year savings of $89.4 million estimated by PPSSCC may be overstated. For example, PPSSCC estimated that $210 million in insurance claims would result in fiscal year 1983 from mortgage assignments. HUD's budget shows that only $141 million in claims were ultimately incurred. As a result of the lower amount of claims, PPSSCC-projected savings of $27 million in the first year would be reduced to about $18 million. Although the claims to the insurance fund are expected to increase in fiscal years 1984 and 1985, over that incurred in 1983, HUD's projected claims for these years are substantially below the claims anticipated by PPSSCC.

V. RELEVANT GAO REPORTS

GAO/RCED-85-29	Improving The Process For Allocating Loan Management Set-Aside Funds To Multifamily Housing Projects (Nov. 16, 1984)
GAO/RCED-83-78	HUD's Loan Servicing Contracts For Multifamily Mortgages Need Better Management (Mar. 14, 1983)
GAO/CED-80-43	Analysis Of Multifamily Assigned Mortgages (Jan. 16, 1980)
Testimony	HUD Policies Concerning Multifamily Property Management and Disposition by J. Dexter Peach before the Subcommittee On Manpower and Housing, House Committee On Government Operations (May 25, 1983)

VI. GAO CONTACT

John Luke 275-6111

HUD 9: LUMP SUM FUNDING

I. PPSSCC ISSUE AND SAVINGS

"Is lump sum funding under the Community Development Block Grant (CDBG) Program cost effective?"

PPSSCC stated that there would be no dollar savings. However, PPSSCC concluded that, theoretically, lump sum funding can be cost-effective.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

Section 104(g) of the Housing and Community Development Act of 1977 authorizes HUD to allow CDBG recipients to draw down funds using letters-of-credit in a single lump sum. Thelump sum draw downs are used to establish a rehabilitation fund in one or more private financial institutions for the purpose of financing rehabilitation. Interest on the lump sums deposited is used to increase the rehabilitation fund. A lump sum drawdown is allowed only if the financial institution provides one of the following commitments:

(1) Leverage of CDBG funds so that the financial institutions commit private funds for loans in the rehabilitation program in an amount substantially in excess of the lump sum deposit for CDBG funds.

(2) Commitment of private funds by financial institutions for rehabilitation loans at below-market interest rates, at higher than normal risk, or with longer than normal repayment periods.

(3) Provision of administrative services in support of the rehabilitation program by participating financial institutions at no cost or lower than actual cost.

The alternative to lump sum funding is that grantees would only be allowed to draw down the funds on an as needed basis.

PPSSCC found that the cost effectiveness of the present lump sum funding program could not be ascertained, and that the administrative and accounting methods and systems needed to monitor lump sum funding were not in place. PPSSCC noted that HUD had recognized this and was in the process of instituting such methods and systems. PPSSCC pointed out various examples where HUD's Office of Community Planning and Development and Office of Inspector General (OIG) had found grantees using the lump sum drawdowns primarily for earning interest income and in some

cases not providing loans at all. Further, PPSSCC said OIG was undertaking a comprehensive audit of the lump sum program, scheduled for completion in January 1983. PPSSCC recommended that HUD (1) undertake a cost/benefit analysis of lump sum funding based on the OIG audit, (2) institute accounting and management controls to monitor lump sum funding and (3) train field representatives in lump sum issues so they can better advise grantees on negotiating favorable bank agreements to maximize the leverage objective.

OIG's May 1983 report on lump sum funding said that the federal government was incurring substantial costs (interest costs to the treasury) in order for grantees to earn program income. Further, the report said the principal benefits of the program (leveraging, interest subsidy and reduced administrative fees) were of only limited value. The OIG estimated that the total benefits from all lump sum agreements in effect nationwide was approximately $600,000 less than the costs to the federal government for borrowing the lump sum funds. One of the primary causes identified for the program's lack of success was excessive grantees' drawdowns which did not appear to be based on prior or projected needs. The OIG concluded that the lump sum program should be eliminated.

While GAO has not performed an evaluation of lump sum funding, GAO work found similar instances where letters of credit were being used improperly. This was reported in a March 28, 1980, report on cash management in HUD's section 312 housing rehabilitation loan program (CED-80-74). In that report GAO noted cases where local housing agencies through letters of credit, were drawing entire amounts of CDBG funds for rehabilitation purposes immediately after signing the grant agreements where no apparent need existed.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

In evaluating PPSSCC's recommendations, HUD disagreed that a cost/benefit analysis was warranted because it would duplicate OIG's study on the lump sum funding process. In addition HUD maintained that it was taking steps to improve cash management and implement better controls thus carrying out the second recommendation. With regard to training, HUD maintained that it had provided training and would continue to do so. HUD agreed with OIG's recommendations that the lump sum program be eliminated and submitted a legislative proposal to the Congress in its fiscal year 1984 budget submission, however, action was not taken.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

PPSSCC estimated no dollar savings.

V. RELEVANT GAO REPORTS

GAO/CED-80-74	Better Cash Management Needed In HUD's Section 312 Housing Rehabilitation Loan Program, (Mar. 28, 1980)

VI. GAO CONTACT

John Luke 275-6111

USER 13: DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT: MANUFACTURED HOME INSPECTION

I. PPSSCC ISSUE AND SAVINGS

Should the Director, Office of Manufactured Housing and Construction Standards, increase inspection fees or, in the alternative, reallocate the apportionment of existing inspection fees so as to recover the administrative costs of the Office related to manufactured housing inspections?

According to PPSSCC, government budget obligations for those activities related to manufactured housing and enforcement are approximately $400,000 per year. If full costs were recovered, a three-year total of $1.3 million would be generated.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

PPSSCC recommended that the Secretary of HUD request a new agreement with OMB that would authorize user charge receipts to offset HUD's administrative costs related to the manufactured housing inspection program.

According to the PPSSCC, the federal government requires an inspection of the design, construction, and performance of manufactured (mobile) homes. The Assistant Secretary of HUD collects fees for each mobile home produced, and deposits that fee in a special fund to finance inspections and enforcement. The receipts are reflected as budget receipts. PPSSCC statistics reveal that an average of 254,000 mobile homes have been manufactured annually since 1976. In August 1975, the fee of $19 per unit was established. Of that fee, $10 was paid to the HUD monitoring contractor, and $9 was to be paid to the states in proportion to mobile homes located in those states to cover the cost of processing consumer complaints. Surplus in the fund developed because only 34 states participated. HUD handled complaints from the remaining states. The fee was, therefore, temporarily reduced from $19 to $15 from April 1, 1981, to June 30, 1982. Recently, a new monitoring contractor agreement was reached that reduced the required inspections and contractor cost to $7. HUD reinstated the $19 fee and pays the $12 balance to the states. During fiscal year 1981, HUD handled 450 consumer complaints. HUD is not reimbursed for handling consumer complaints.

GAO agrees with PPSSCC's recommendation and believes user fee receipts to offset the costs of HUD's inspection and enforcement activities under the Manufactured Housing Program is reasonable.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO concurs with the PPSSCC that authority exists under the statute for those activities related to inspection to be financed from the inspection fee. Even though the statute allows it, currently by administrative agreement between HUD and OMB, none of the user fee receipts are applied to the administrative costs of HUD. This agreement could be renegotiated to allow recovery of those costs related to inspection activities.

HUD agrees with the PPSSCC recommendations and plans to implement them during fiscal year 1985.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

According to PPSSCC, the average HUD administrative cost per unit for inspection and enforcement activities is $1.60, as calculated by the Manufactured Housing Office. Assuming an average of 250,000 units per year, the resultant revenues would be a total of $1.3 million over three years.

If the PPSSCC assumptions are valid, the savings estimate was correctly computed. Because GAO has not evaluated the inspection and enforcement issue under this program, it has no basis to comment on the estimates.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

John Luke 275-6111

BUS-INS 11: FEDERAL HOUSING MUTUAL MORTGAGE INSURANCE FUND

I. PPSSCC ISSUE AND SAVINGS

Using private mortgage insurance practices as a benchmark, what modifications can be made to the Mutual Mortgage Insurance Fund (MMIF) program definition, organization, and operational procedures to make it more effective and efficient?

PPSSCC estimated the three-year net savings from this issue to be a total of $13.2 million.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

In general, GAO agrees with the thrust of the PPSSCC conclusions that savings can be achieved in the processing of single family government insured mortgage loans by adopting various private sector practices such as automation to reduce operating costs. However, GAO believes that even more could be saved by relying on commercial lenders to perform certain processing activities rather than changing FHA's procedures. This was reported in a 1982 GAO report (GAO/AFMD-82-15). GAO concluded that VA and HUD could in their single family home mortgage insurance programs, not only reduce their administration costs but also provide more timely service to home buyers by relying more on commercial lenders, where practicable. This would reduce duplication of effort between the agencies and lenders and reduce the number of times applications are reviewed by the agencies.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

PPSSCC's recommendations concerning underwriting and the delegation of property value determinations could be implemented by executive action. Legislative action would appear necessary for VA to have appraisals sent directly to lenders. However, as stated earlier GAO believes and both FHA and VA recognized the greater cost savings from reliance on approved lenders for underwriting. Their key concern was that lenders and appraisers may tend to overvalue property, thus decreasing the agency's ability to recover full value from the property if the borrower defaults. GAO said this could be protected against by having the agencies select the appraisers and making a field review of a sample of appraisals, as is done under their regular procedures. In October 1983, HUD completed efforts to move forward with a delegated system. VA agreed to partially implement such a program.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

Because GAO's study was directed at estimating savings on the basis of delegating activities to commercial lenders, GAO has no basis to comment on the PPSSCC three year savings estimate of $13.2 million.

GAO estimated that VA and HUD could save between $4 million and $8 million in personnel costs, based on the mortgages insured during fiscal year 1980, by following the private mortgage insurers' practice of relying on approved commercial lenders for certain underwriting activities involved in guaranteeing and insuring single family home mortgage loans. Of the savings, about one-third would accrue from borrower-ability-to-pay processing and two-thirds from property valuation processing. The amount saved would depend on the method used in processing. VA's procedure is to review each loan package as a check on lender performance. HUD's procedure is to review thoroughly all loans only until confident of the lender's capability; subsequently, only a percentage of the loans are reviewed in such depth. GAO's savings were calculated applying VA's process.

V. RELEVANT GAO REPORTS

GAO/AFMD-82-15 VA and HUD Can Improve Service and Reduce Processing Costs In Insuring Home Mortgage Loans (June 11, 1982)

VI. GAO CONTACT

John Luke 275-6111

FEMA 1 AND BUS-IN 3: NATIONAL FLOOD INSURANCE PROGRAM

I. PPSSCC ISSUE AND SAVINGS

Can the National Flood Insurance Program reduce or eliminate its annual deficit?

PPSSCC estimated that the annual deficit may be reduced by about $660 million over three years by making the program actuarially sound and self-supporting.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The National Flood Insurance Program, operated by the Federal Emergency Management Agency, was established in 1968 to make flood insurance available to property owners throughout the nation. As of October 1983, the program had about 1.9 million policyholders with a federal liability, as measured by insurance in force, of about $109 billion. Cumulative program losses through fiscal year 1983 totaled about $1.77 billion. The federal government provided a subsidy of about $233 million for the program during fiscal year 1983.

The PPSSCC recommendations about the flood insurance program are designed to reinforce and further the Agency's goal of making the program self-supporting by 1988. The Agency had established this goal in 1981.

Since 1981, GAO has documented the need for improvements in this program. In a 1983 report (GAO/RCED-83-53), GAO stated that the insurance rate structure was overly complex, and that it had not generated sufficient income to cover costs. GAO also found that the Agency's approach of attempting to eliminate the program's federal subsidy by fiscal year 1988 is a significant departure from how the program was previously administered, where a more gradual elimination over several decades was anticipated.

The PPSSCC recommended that Congress pass legislation to facilitate program continuity from one administration to the next, and to set the desired program subsidy goals. In its report, GAO addressed congressional involvement and stated that the Congress needs to consider telling FEMA whether it agrees with the attempt to eliminate the program's subsidy by 1988, and giving the Agency specific guidance on how the subsidy should be eliminated. This process was started by the Congress through committee hearings that were held during 1983, and by requiring that the Agency report to Congress on its insurance rate increases by June 30, 1984.

GAO concurs with the PPSSCC recommendations relating to improvements in the enforcement of flood plain management requirements and underwriting standards. In a 1982 report (GAO/CED-82-105), GAO made recommendations to improve the Agency's program for enforcing the flood plain management requirements and to address underwriting quality by correcting the misrating of flood insurance policies.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

No action has been taken on the PPSSCC recommendations that legislation be passed to facilitate program continuity and to set the desired program subsidy goals. The National Flood Insurance Act now calls for flood insurance rates to be set on an actuarial (or self-sustaining) basis considering the risks involved and the need for flood insurance to be affordable. Congressional oversight hearings, as previously described, provide a forum for the review of flood insurance rates and their effect on program participation.

GAO questions the necessity of requiring legislative action to adjust flood insurance rates. The current legislation now authorizes the agency to develop an actuarially sound program. In addition, while a requirement to legislatively change insurance rates could provide some additional continuity, it could also result in delays in needed rate increases.

Achieving the agency's current goal of self-supporting operations by 1988 depends upon additional increases in insurance rates, changes in insurance coverage, cross-subsidizing with a charge on non-subsidized rate payers, or a combination of these options. Insurance premiums for the program were raised four times since 1980 from an average of about $79 to about $167, raising the concern that participation in the program could decline. As a result of congressional concern about participation, the Agency has decided it will not make additional rate increases before October 1, 1985.

The agency has initiated action to implementing flood plain management requirements and underwriting activities.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC savings estimate for making the program self-supporting is based on the concept that increased insurance rates will reduce future program losses. However, the estimate is also based, in part, on the assumption that future claims frequency will be consistent with

recent experience. Yet, nature is unlikely to cooperate by causing flood damage at a historically average rate--flood damage varies from year to year. For example, program losses during 1979 were about $482 million, while losses during 1981 were about $151 million. Based on 1979 and 1981 experience, program losses could vary from about $450 million to $1.45 billion over a 3 year period.

The PPSSCC estimate is also based on the assumption that the policyholder base will increase about 5 percent per year while insurance rates are being increased. GAO recently studied the effect of rate increases on the number of policyholders (GAO/RCED-83-107). GAO's analysis indicated that rate increases had some influence on the decline in program participation from about 2,014,500 policies in December 1980 to about 1,860,400 in November 1982. Based on these results, GAO believes the PPSSCC assumption about increasing the policyholder base while also raising insurance rates is questionable?

V. RELEVANT GAO REPORTS

GAO/RCED-83-107	The Effect of Premium Increases On Achieving The National Flood Insurance Program's Objectives (Feb. 28, 1983)
GAO/RCED-83-53	National Flood Insurance Program--Major Changes Needed If It Is To Operate WithOut A Federal Subsidy (Jan. 3, 1983)
GAO/CED-82-105	National Flood Insurance: Marginal Impact On Flood Plain Development--Administrative Improvements Needed (Aug. 16, 1982)

VI. GAO CONTACT

John Luke 275-6111

FEMA 2: DISASTER GRANTS VS. DISASTER INSURANCE

I. PPSSCC ISSUE AND SAVING

Can the Federal Emergency Management Agency (FEMA) reduce the cost of disaster assistance through insurance?

PPSSCC estimated that $276.0 million could be saved over 3 years if federal disaster assistance is not made available for insurable items.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

After the President declares a major disaster, the affected communities and individuals may be eligible to receive federal grant assistance to help them recover from their losses. During fiscal year 1983, the agency's disaster relief expenses totaled about $130 million.

GAO supports the PPSSCC recommendation to eliminate federal assistance for insurable public buildings and facilities of state and local government. In 1982, GAO reported on federal disaster assistance policy (GAO/CED-82-98). Under the Disaster Relief Act of 1974, federal disaster assistance is intended to supplement resources available to state and local governments. However, GAO found that federal grant assistance was being provided even though states and local governments had the capability of covering certain expenses themselves. These expenses included repair or reconstruction of uninsured public buildings and facilities. In addition, a deliberate decision had often been made by state and local officials not to insure, or to underinsure such property.

GAO concluded that federal reimbursement of state and local governments for such disaster expenses was not reasonable. GAO recommended that the Congress amend the Disaster Relief Act of 1974 to require that, as a condition of receiving federal public disaster assistance, state and local governments obtain and maintain appropriate hazard and flood insurance as is reasonably available, adequate and necessary to protect against the loss of public buildings, facilities and equipment. Language to implement this recommendation is contained in proposed legislation, as discussed in section III.

The PPSSCC also recommended that legislation be adopted to (1) eliminate disaster assistance coverage for the insurable items of individuals, (2) eliminate insurance deductibles as eligible items for grant assistance, and (3) increase flood insurance deductibles in relation to the amount of insurance purchased. These recommendations would reduce federal disaster assistance costs.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC recommendation to eliminate public and individual assistance for insurable items requires an amendment to the Disaster Relief Act. Legislation that would require elimination of grant assistance for uninsured public buildings in areas where flood insurance is available is being considered by the Congress in the proposed Disaster Relief Act Amendments of 1984. These amendments do not address uninsured property owned by individuals.

The recommendation to eliminate insurance deductibles as eligible items for grant assistance and to increase the deductibles in relationship to the amount of insurance purchased would require program changes that are within the authority of FEMA. The first of these recommendations relating to grant assistance has not been adopted by the Agency as of September 1984. Between 1981 and April 1984, however, the Agency did increase the standard flood insurance deductible from $200 to $500, and began offering additional optional higher deductibles with corresponding premium reductions.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC savings estimate for this proposal cannot be precise in part, due to the variable frequency and severity of disaster events. If more disaster damage occurs than the average, then the savings estimate could be understated. Likewise, if less disaster damage occurs than the average, then the savings estimate could be overstated.

The PPSSCC also assumed that there would be a 50 percent increase in the number of flood insurance policies sold over a two year period. About one million additional flood insurance policies would need be sold to attain the PPSSCC estimate. In contrast, it required over 10 years for the National Flood Insurance Administration to reach a policyholder base of about 2 million policies. Based on this experience, GAO believes that it is unlikely that the proposed change will result in the sale of as many as one million additional flood insurance policies over a 2 year period.

In addition, the implementation of other PPSSCC recommendations regarding flood insurance rate increases could potentially affect the pace of future policy sales and the extent of existing policy renewals (see FEMA-1 and BUS-IN-3).

V. RELEVANT GAO REPORTS

GAO/CED-82-98	Improved Administration of Federal Public Disaster Assistance Can Reduce Costs and Increase Effectiveness (July 23, 1982)
GAO/PAD-80-39	Federal Disaster Assistance: What Should the Policy Be? (June 16, 1980)

VI. GAO CONTACT

John Luke 275-6111

VETS 4: FORECLOSURE OPTION

I. PPSSCC ISSUE AND SAVINGS

Should the Veteran's Administration (VA) continue to acquire title to properties financed through its guaranteed loan program and terminated through foreclosure?

Based on budget figures for fiscal year 1983, the PPSSCC estimated that the potential annual savings resulting from a policy change that would result in VA acquiring fewer properties at foreclosure would be $68 million in the first year. Over three years, it estimated that total savings would be $225.1 million.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATION

Before a VA guaranteed home loan is foreclosed VA must decide whether it will (1) pay the guaranteed amount and leave the property with the lender, or (2) set an amount that it will pay the lender for the property if it is not sold to a higher bidder at the foreclosure sale. If the total cost of the foreclosure exceeds the appraised value by more than the guaranty, then it is in VA's interest to leave the property with the lender and pay the guaranty amount. The guaranty payment should be the maximum loss VA incurs on any property. If, however, the foreclosure costs exceed the appraised value but by less than the guaranty VA will pay all of the lender's costs and take over the property. The same is true if the appraised value exceeds the foreclosure costs. In both cases, VA expects to reduce its losses by selling the acquired property.

The PPSSCC recommended that VA should only acquire properties at foreclosure sales when it is in the best interest of the taxpayers. In its analysis PPSSCC concluded that the VA could reduce its losses, in almost all cases, if foreclosed properties were left with the lenders and VA paid the guaranteed amount. It assumed that the lender could then allow the property to be sold at the foreclosure sale at reasonable value to third party bidders and that any gain from such a sale would reduce VA's guaranty payment. PPSSCC's analysis also assumed that there would be a substantial number of third party bidders at the foreclosure sale willing to pay the reasonable value. GAO, however, does not believe that a significant number of third party bidders are willing to bid a reasonable value for the properties since most of these bidders are speculators interested in making a substantial profit by reselling the property. Factors which GAO believes limit third party participation in foreclosure sales include (1) restrictive financing terms often

requiring full payment within a short period after purchase, (2) potential buyers not ordinarily having the opportunity to examine the inside of the house so that they can adequately judge the amount they are willing to pay for it, and (3) few people being aware of the sales due to a limited amount of advertising. Overcoming these problems could increase bidding by third parties who are not speculators.

VA can also increase third party bidding by adjusting the appraised value of the property. The PPSSCC concluded that in setting the amount of money that it is willing to pay for the property the VA had not considered all those factors that should affect this amount. Therefore, VA was setting unrealistic high bid amounts that reduced buyer interest and increased government losses. PPSSCC found that VA was establishing its bid price on the basis of an appraisal of the property's market value. VA, however, has changed its procedures and now bases its bid price on the property's appraised value less certain anticipated post acquisition costs. These costs include repairs, maintenance, security, taxes, and selling expenses. The adjusted bid price is designed to put the VA in a position where it will be no worse off if either (1) the property is sold to a third party at the foreclosure sale or (2) if VA acquires and subsequently sells the property itself. Adjusting the appraised value has a two fold effect. First, it results in more properties left with the lender, and secondly, lenders are likely to make lower bids at the foreclosure sale thus increasing the likelihood of third party bidders. In both these instances VA would acquire fewer properties.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with PPSSCC that VA has the authority to implement this recommendation administratively and believes that implementation of this recommendation is feasible. As discussed above, VA has changed its procedures and now acquires properties only when it is in the best interest of the taxpayers to do so. VA's approach is also in agreement with PPSSCC's conclusion that VA should recognize all factors that adversely affect the amount VA should pay to acquire foreclosed properties.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC estimated that annual savings of $58.3 to $68 million are possible if VA did not acquire any foreclosed properties in the future. The $58.3 million dollar estimate is based on the assumption that VA would not have to acquire the 10,150 properties it expected to acquire at foreclosure in fiscal year 1983. If so, VA would save

$19.6 million in realtor/broker commissions, $20.5 million in management costs, and $18.2 million in interest savings. The higher estimated savings amount--$68 million--was determined by multiplying VA's average loss on each property sold--$6700--by the 10,150 properties it expected to acquire in fiscal year 1983.

While GAO believes that the establishment of a more realistic price VA will pay to acquire foreclosed properties is likely to result in increased sales to third parties, it does not believe that the PPSSCC estimated savings are realistic. Adjusting the appraised value of the properties by anticipated post acquisition costs will have an impact in some cases, but in most instances the difference between the total foreclosure costs and the adjusted appraised value will still be less than the guaranty and likely to result in the VA acquiring title to the property. In fiscal year 1982, when VA did not adjust the appraised value of the properties for anticipated post acquisition costs it left about 1.5 percent of the foreclosed properties with lenders. In fiscal year 1983, when it did make the adjustment, it left 3.25 percent of the properties with lenders. Also, foreclosure sales to third parties--other than speculators--is not likely to increase substantially because of restrictive financing terms, the inability to examine the inside of the property prior to the foreclosure sale, and a limited amount of advertising about the sale.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

John Luke 275-6111

INT 1: SALE OF UNNEEDED PUBLIC LANDS

I. PPSSCC ISSUE AND SAVINGS

"Can revenues from sales of unneeded public lands be increased and used to reduce Federal borrowing costs?"

The PPSSCC estimated that net revenues of $900 million over 3 years might be generated from the Bureau of Land Management's (BLM) sale of unneeded public lands. Assuming a 10 percent rate on Treasury borrowing, the PPSSCC estimated that the avoided interest costs resulting from unneeded borrowing would amount to $146 million over the same period.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The government owns about 730 million acres of the nation's land area. The Department of the Interior administers about 70 percent of the public lands, mainly through BLM (47 percent). In 1982, the President asked federal agencies to identify and sell land that is unneeded for federal purposes in order to improve land management efficiency and to raise revenue to reduce the federal deficit and borrowing costs. Each federal agency established an Asset Management Program (AMP) to comply with the President's order.

BLM's sale of public land is governed by the Federal Land Policy and Management Act of 1976 (FLPMA), which calls for federal retention of public land for management of its natural and mineral resources in the broadest national interest unless, as the result of land use planning, BLM determines to sell tracts that are uneconomic to manage or that are needed for community or economic development.

The PPSSCC recommended that current laws be changed so that land sales revenues could be placed in the Treasury's general fund, rather than special-purpose funds for federal land purchases and other purposes. The PPSSCC states that legislation is needed to permit such increased revenues to be used to reduce the government's debt. The PPSSCC also states that increased land sales revenues will reduce the amount of money that the government borrows. Changing existing law to place the revenues in the General Fund instead of the land acquisition funds of the Interior Department as the PPSSCC suggests would do little to reduce the federal borrowing costs. Funds could still be appropriated by the Congress from other sources for land acquisition. Further, in light of continuing federal budget deficits, it is unlikely that sales of unneeded public lands would make a significant dent in the national debt.

The PPSSCC recommended that BLM revise its land use planning and sales regulations to make procedures more efficent and effective. BLM revised its sales and planning regulations in 1984 and 1983, respectively.

The PPSSCC recommended that BLM give special attention to AMP so that implementation could be underway by early 1983. Although BLM implemented the AMP program in early 1982 and eventually sold about 10,000 acres of land, Interior cancelled the program in August 1983 following bipartisan criticism from the public, western governors, and the Congress. Much of the criticism concerned BLM's process for identifying the land for sale and the perception that BLM did not adhere to the procedures. GAO's position, based on reviews of land disposal activities at four agencies (BLM, Bureau of Reclamation, Corps of Engineers, and the Forest Service), is that agencies need to do more to identify and sell unneeded land according to existing authorities and ongoing land use planning.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The first recommendation would require the Congress to amend the Reclamation Act of 1902 so that public land sales revenues would go to the general fund rather than the Reclamation Fund. In March 1983, the Office of Management and Budget submitted a legislative proposal to amend the Reclamation Act so that receipts from public land sales could be placed in the general fund. However, the Congress took no action on this proposal during the 98th Congress.

BLM implemented the PPSSCC's second recommendation with the promulgation of streamlined land use planning and sales regulations (in May 1983 and July 1984, respectively). BLM revised the rules to better implement AMP's anticipated large-scale sales. Even with AMP's cancellation and the now anticipated small-scale sales, BLM expects improved planning and sales administration.

PPSSCC's third recommendation was implemented in 1982 but the AMP program was cancelled in 1983 because of considerable bipartisan criticism of the program. Public land sales will continue, however, under its ongoing land management and disposal programs.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO did not estimate the revenue that would have resulted from BLM's large-scale land sale program planned under AMP, but enough information is available to cast

serious doubt on PPSSCC's $900 million estimate. For example, PPSSCC's estimate was based on admittedly problematic assumptions about the acreage that BLM would sell; the land's market value; and buyer demand for BLM land. Also GAO found that BLM's early AMP estimates for acreage and revenue were inflated, and thus, PPSSCC's estimates are even higher.

The PPSSCC also estimates $146 million savings in federal borrowing costs (interest) realized from the $900 million sales revenue being deposited in the general fund. Since GAO believes the $900 million revenue estimate is unrealistically high, GAO similarly concludes that federal interest savings would be less than $146 million.

V. RELEVANT GAO REPORTS

GAO/RCED-85-44	The Bureau of Land Management's Efforts To Identify Land For Disposal (draft)
GAO/RCED-85-41	The Corps of Engineers Should Revise Its Policy For Identifying Unneeded Land (draft)
GAO/RCED-85-25	The Bureau of Reclamation Could Identify More Unneeded land (draft)
GAO/RCED-85-16	Forest Service's Program To Identify Unneeded Land For Potential Sale Is Stalled (November 6, 1984)
11CCPAD83 (B-200111)	Letter report (April 19, 1983) to the Chairman, House Committee on Government Operations, commenting on a draft bill entitled National Debt Retirement Act of 1982.

VI. GAO CONTACT

Michael Gryszkowiec 275-5514

INT 3: REORGANIZATION OF LAND MANAGEMENT

I. PPSSCC ISSUE AND SAVINGS

"Can coordination of land management functions between the Bureau of Land Management (BLM) in the Department of the Interior and the Forest Service (FS) in the Department of Agriculture reduce costs and improve service to the public?"

The PPSSCC "claims no savings from this issue; however, based on a study prepared by the Office of Management and Budget (OMB) in 1979, adjusted for inflation, the savings over three years may be estimated at $95.4 to $120.0 million." The PPSSCC estimated that "conservatively assuming only one-third of these savings would mean three-year savings of $31.8 to $40.0 million."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATION

Traditionally, the BLM managed mostly grazing and desert land while the FS managed forests. As a result of broadened federal policies, however, both agencies now have the capacity to manage almost any type of land. Because of this expanded capacity and because much of the land managed by these two agencies in the western United States is located in the same or nearby areas, increased coordination of administrative functions and improved land management patterns through jurisdictional transfers are possible. Studies carried out by the two agencies have shown that transferring agency jurisdiction to consolidate the land into large blocks can reduce land management costs, increase its management efficiency, and improve public service.

The PPSSCC recommended that BLM and the FS combine administrative functions and expand jurisdictional transfers. With respect to administrative functions, the PPSSCC recommended that common functions such as permit application procedures, personnel training, and public affairs responsibilities be combined at BLM and FS field offices in the West, beginning in those locations where both agencies have offices. With respect to jurisdictional transfers, the PPSSCC recommended that the two agencies immediately evaluate how jurisdictional transfers could be more widely implemented and define a schedule for transfers. GAO agrees with these recommendations.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that the Secretaries of the Interior and Agriculture (through the BLM and Forest Service, respectively) should be directed to plan and

schedule a program for increased jurisdictional transfers and for elimination of administrative overlap between the two agencies. In this regard, the BLM Director and FS Chief signed an interagency agreement in May 1980 establishing a jurisdictional transfer program. The program's goal is to identify and evaluate opportunities to transfer the two agencies land management responsibilities and develop proposed legislation to effect transfers that would reduce land management costs, increase management efficiency, and improve public service.

Consolidation of administrative functions and identification of land jurisdiction transfer opportunities are possible through executive actions. To achieve maximum management efficiency, however, transfers of land jurisdiction between BLM and the FS would require legislative actions.

The PPSSCC recommended that the BLM and FS (1) immediately evaluate how jurisdictional transfers could be more widely implemented and (2) develop a schedule by December 31, 1983, for transferring land and begin implementing transfers by July 1984. GAO does not believe that these timeframes are realistic. GAO reviewed the two agencies' implementation of the jurisdictional transfer program and found that joint progress stopped in January 1983. Further, joint field work on the program was suspended at that time because the BLM Director and FS Chief could not agree on the size and scope of the transfers that would be included in the first legislative proposal. If the joint effort is resumed, more time will be needed than PPSSCC estimated to carry out the detailed field analysis and evaluation required to develop cost effective transfer proposals and develop legislative proposals that are acceptable to both agencies.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC did not make its own estimate of the potential savings. However, the PPSSCC noted that a study prepared by the Office of Management and Budget (OMB) estimated savings of $95.4 to $120.0 million over a three year period. The OMB savings result from a reduction of 750 to 950 employees and a consolidation of administrative functions. The PPSSCC commented that conservatively assuming only one-third of these savings, the savings would be about $31.8 million to $40.0 million.

In its report on the BLM and FS jurisdictional transfer program, GAO noted that a preliminary estimate prepared jointly by the two agency program coordinators indicated annual savings of about $30 million might be achieved through the jurisdictional transfer program. Although this estimate was preliminary and not based on

detailed evaluation and analyses, it indicates that the level of savings reported by the PPSSCC could be possible.

V. RELEVANT GAO REPORT

GAO/RCED-85-21	Program To Transfer Land Between The Bureau Of Land Management And The Forest Service Has Stalled (Dec. 27, 1984)

VI. GAO CONTACT

Michael Gryszkowiec 275-5514

INT 5: NATIONAL PARK SERVICE CONCESSIONS MANAGEMENT

I. PPSSCC ISSUE AND SAVINGS

"Should the handling of concessioner contracts be changed to seek more revenue that might be used to help offset increasing maintenance and repair costs?"

The PPSSCC estimated that revenues could be increased approximately $4.9 million, over 3 years, if the average concessioner franchise fee were increased from 2 to 4 percent of gross receipts and other legislative and administrative steps were taken including the receipt of contributions from private sources. According to the PPSSCC, annual revenues eventually would increase by $6.0 million over current levels.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

Many Park Service-owned buildings that are operated by concessioners are deteriorating and, according to the PPSSCC, the government often spends more each year in rehabilitation or reconstruction of these buildings than it takes in from franchise fees. The PPSSCC said that it agreed with the views of the Office of Management and Budget and GAO, that this problem has resulted, in part, from the Park Service's preference to allow concessioner user charges and franchise fees to remain relatively low in exchange for some physical improvements to Service-owned buildings by some concessioners. However, this policy causes the general taxpayers to pay a subsidy that may not be necessary or appropriate, and also has resulted in a deterioration of many park facilities.

The PPSSCC recommended that legislation be initiated to eliminate a provision that gives concessioners a legal "preference" in the offering and renewal of contracts in parks where they have been operating. GAO made a similar recommendation in reports issued in July 1975 and July 1980 (see Part V).

The PPSSCC also recommended that the Congress adopt then-pending legislation (S.2715) that would earmark a portion of concessioner fee receipts for the repair and maintenance of Park Service-owned facilities and also permit the use of supplementary matching funds, to be obtained from private contributions, for the same purpose. A GAO report issued October 10, 1980, entitled Facilities In Many National Parks and Forests Do Not Meet Health and Safety Standards (GAO/CED-80-115), discussed the need to obtain funds to upgrade Park Service-owned visitor facilities.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The Concessions Policy Act of 1965 authorizes the Park Service to have a concessioner operate all similar facilities and services in a national park area. Also, to encourage continuity of concessions operations, the act requires the Secretary of the Interior to give existing concessioners preference in the renewing of their contracts if the Secretary determines that they have operated satisfactorily. The PPSSCC recommended that in order to improve competition, and thereby increase revenues, the Secretary of the Interior initiate legislation to eliminate the right of preference for contract renewal. GAO believes this is feasible and made a similar recommendation in reports issued in 1975 and 1980. The Chief of the National Park Service's Concessions Division contends that the Park Service can negotiate a reasonable fee presently and therefore there is no need to eliminate the right of preference. As of October 1, 1984, the Secretary had no plans to submit the recommended legislation.

The PPSSCC also recommended enactment of a pending bill (S. 2715) that would provide funds for repairing buildings owned by the Park Service and used by concessioners. The proposed legislation was enacted (Public Law 97-433) on January 8, 1983.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

PPSSCC's saving estimate, $4.9 million over 3 years, consists of $1.9 million from increases to franchise fees and $3.0 million from private donations. The PPSSCC's estimate of increased revenues from franchise fees ($1.9 million) was based on a doubling of the average fee, from 2 to 4 percent of gross receipts, which it said would be more comparable to the fees at similar facilities operated by the states. According to the Chief, Concessions Division, in 1985 the Park Service plans to implement new procedures for setting franchise fees as GAO recommended in a July 1980 report. The Chief stated that these new procedures should result in increased franchise fees but will still take into consideration the amount of profits the concessioner agrees to spend to upgrade the concession facilities they operate. Therefore, he stated it may not be possible to double the franchise fees.

The PPSSCC also may have overestimated the amount of private donations. Language in the proposed legislation (S.2715) provided for up to $1 million of private donations annually but the law, as enacted, (P.L. 97-433) provides for up to a total of $1 million during the entire 6 years the program is to operate. An official of the

National Park Foundation, a foundation that is administering these funds, said that this change in language was not intended, however, and is confident that the Congress would amend the law to raise the ceiling on private donations if the amount of donations approached the $1 million limitation. No private donations had been received as of October 1, 1984.

V. RELEVANT GAO REPORTS

GAO/CED-80-102	Better Management of National Park Concessions Can Improve Services Provided to the Public (July 31, 1980)
GAO/RED-76-1	Concession Operations in the National Parks--Improvements Needed in Administration (July 21, 1975)

VI. GAO CONTACT

Michael Gryszkowiec 275-5514

INT 6: OUTER CONTINENTAL SHELF (OCS)

I. PPSSCC ISSUE AND SAVINGS

"Would streamlining the Outer Continental Shelf (OCS) leasing/permitting process and eliminating certain required Interior reports to the Congress be time and cost efficient?"

The PPSSCC estimated that $4.9 million can be saved over the three-year period following implementation of such actions.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

As a result of the 1978 OCS Lands Act Amendments and other legislation--particularly environmentally-related statutes--various federal as well as state agencies are involved in managing OCS activities and various approvals and permits are needed before exploration and development activity can begin. GAO has reported that the permitting process could be better integrated among the involved agencies to provide for more cost-efficient operations and reduce permitting delays. (See Impact of Regulations--After Federal Leasing--On Outer Continental Shelf Oil and Gas Development, GAO/EMD-81-48, February 27, 1981.) Also, eliminating three legislatively mandated reporting requirements, which are expensive and unnecessary, would be time and cost efficient. (See Repeal of Unneeded Outer Continental Shelf Production Rate-Setting Functions Would Cut Costs, GAO/EMD-82-97, September 10, 1982, and Congress Should Consider Eliminating Requirement For Interior Report On Shut-in Or Flaring Wells, GAO/RCED-84-19, October 24, 1983.)

The PPSSCC recommended that Minerals Management Service (MMS), Army Corps of Engineers, Environmental Protection Agency, and U.S. Coast Guard meet and discuss possible areas of consolidation and coordination and produce a Memorandum of Understanding (MOU) outlining specific agency responsibilities for pre- and post-permit inspections and monitoring. Although GAO has not previously recommended that agencies produce a MOU, it has recommended that the Congress enact legislation to establish standard, reasonable timeframes within which all federal agencies would complete their postlease approval and permitting processes.

The PPSSCC recommended elimination of the OCS Lands Act requirement for an annual report to the Congress by Interior on shut-in and flaring OCS wells. In initially requiring the annual report, the Congress was concerned whether well operators were deliberately withholding production in anticipation of higher prices once price

controls were lifted. However, the environment under which the reporting requirement was enacted has changed. Legislation and administration actions to fully decontrol oil prices and to phase-out controls over natural gas prices make the report of questionable value, because the incentive to withhold production in anticipation of higher prices resulting from decontrol has been largely eliminated. Thus, GAO agrees with the PPSSCC that given the report's limited value, the costs incurred by Interior to prepare its report do not appear justified.

The PPSSCC also recommended and GAO agrees that certain production rate-setting requirements be modified. The OCS Lands Act requires Interior to determine three maximum production rates (based on different factors) for all producing offshore wells and report these rates to the Congress. GAO has found that most of Interior's rate-setting effort is not useful or necessary and could be curtailed.

The OCS Lands Act, as amended, also requires Interior to notify and seek approval from the Congress for royalty refunds. The PPSSCC reported that the Congress shows little or no interest in being notified and that the net effect of this requirement is to delay royalty refunds. It, therefore, recommended that legislation be introduced to eliminate the need for congressional approval of OCS refunds. GAO has not reviewed the process for Interior to seek approval from the Congress for OCS royalty refunds to lease operators.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with PPSSCC's assessment of authority to implement these recommendations.

The implementation of the first recommendation would require the coordination and cooperation of MMS, Corps of Engineers, Environmental Protection Agency, and the U.S. Coast Guard. On May 31, 1984, Interior and the Environmental Protection Agency approved a limited Memorandum of Understanding for coordinating offshore environmental permits. However, it is too early to assess its effect. No action has been planned among the other agencies to produce a MOU, although it may be relatively simple.

GAO has discussed the need for repeal of the two annual reporting requirements--on shut-in or flaring wells and maximum production rates--with Senate and House committee staffs. On September 5, 1984, H.R. 6189, which would eliminate these reporting requirements, was introduced in the Congress. No action was taken prior to Congress' adjournment.

GAO has not reviewed the process for Interior to seek approval from the Congress for OCS royalty refunds to lease operators; however, implementation of the recommendation would require congressional action.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO has no basis for assessing the reasonableness of two of the PPSSCC estimates, while the other two were similar to GAO's previously estimated savings.

The PPSSCC concluded that the most substantial consolidation of inspections would occur between Interior and the Coast Guard. For purposes of fiscal evaluation, the PPSSCC assumed that 30 percent of these agencies' inspections would be combined. The PPSSCC estimated first-year savings were $1,050,000 for Interior only. Coast Guard savings were not included, and the estimated savings have been allocated evenly to both agencies. GAO has no basis for assessing the reasonableness of this PPSSCC estimate.

GAO has estimated that repeal of Interior's shut-in and flaring reporting requirements would save $250,000 to $280,000 a year--the same as the PPSSCC savings estimate for this recommendation.

In 1982, GAO estimated that eliminating the maximum production rates requirements could save Interior $137,100 per year compared with the PPSSCC's estimated savings of $131,000 for the first year of implementation.

GAO has not reviewed the process for Interior to seek approval from the Congress for OCS royalty refunds to lease operators and, as a result, GAO has no basis for determining whether the PPSSCC's savings estimate for this recommendation is realistic.

V. RELEVANT GAO REPORTS

GAO/RCED-84-19	Congress Should Consider Eliminating Requirement For Interior Report On Shut-in Or Flaring Wells (Oct. 24, 1983).
GAO/RCED-83-10	Interior's Report Of Shut-in Or Flaring Wells Unnecessary, But Oversight Should Continue(Oct. 5, 1982).
GAO/EMD-82-97	Repeal Of Unneeded Outer Continental Shelf Production Rate-Setting Functions Would Cut Costs (Sept. 10, 1982).

GAO/EMD-81-48	Impact of Regulations--After Federal Leasing--On Outer Continental Shelf Oil And Gas Development (Feb. 27, 1981).
Testimony	Evolution of the Offshore Program, by Douglas L. McCullough, Energy and Minerals Division, before the Subcommittee on the Panama Canal and the Outer Continental Shelf, House Committee on Merchant Marine and Fisheries (Mar. 31, 1981).

VI. GAO Contact

Michael Gryszkowiec 275-5514

LAND 1: OFFSHORE MINERALS MANAGEMENT

I. PPSSCC ISSUE AND SAVINGS

"Can savings and additional revenues from minerals exploration and development on the Outer Continental Shelf (OCS) be generated through improved managerial initiatives?"

The PPSSCC concluded that the Congress in carrying-out its oversight responsibilities has unnecessarily delayed and cancelled OCS lease sales. As a result, the Congress has cost the government millions in lost revenues.

The PPSSCC proposed that Interior's Minerals Management Service (MMS) become an off-budget, independently-funded entity. It also proposed that MMS continue to study and use alternative bidding systems, and use seven-year, rather than ten-year, lease terms for tracts in harsh environments. The PPSSCC estimated cost savings from using the optimum alternative bidding systems at $410.4 million over the next three years. Also, PPSSCC estimated an additional saving of $1.5 billion in the next three years by making MMS an off-budget agency. However, this saving was not included in PPSSCC's final estimate because it was based on subjective revenue estimates by Interior.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATONS

In contrast to PPSSCC's position, GAO believes that MMS should be financed through direct appropriations. GAO has found that public interest is best served when congressional control over federal agencies is exercised through the annual appropriation process. GAO has also opposed off-budget status for governmental entities because it reduces the comprehensiveness of the budget and the consistency with which the discipline of the budget process is applied to government activities. GAO notes, however, that in this case making MMS an off-budget agency would not necessarily eliminate congressional oversight because of reviews provided for by the 1953 OCS Lands Act and the 1978 amendments to the Act.

GAO supports the PPSSCC's recommendation that MMS should continue to analyze and use alternative bidding systems in leasing offshore lands. The alternative systems currently in use are designed to reduce the amount of up-front money required from companies to obtain an offshore lease, in return for a greater share of the revenues to the government from any follow-on production. The Congress intended that Interior should take into

account a variety of factors when using the alternative systems, with government revenues being just one of these considerations. The Congress suggested for example that Interior should also consider the effect of alternative bidding systems on competition, speculation, exploration, and production. (See Congress Should Extend Mandate To Experiment With Alternative Bidding Systems In Leasing Offshore Lands, GAO/RCED-83-139, May 27, 1983, and Interior Should Continue Use Of Higher Royalty Rates For Offshore Oil And Gas Leases, GAO/RCED-83-30, Dec. 20, 1982.)

The use of 10-year lease terms is relatively new (since 1981) and, as a result, GAO has no basis for assessing the PPSSCC's recommendation that Interior should use a 7-year lease term instead of a 10-year term.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with PPSSCC's assessment that legislative action is needed to make MMS an off-budget agency. This would be politically complex because of the number of states and local governments, and environmental issues involved with OCS production, as well as raising controversial issues concerning the comprehensiveness of the budget process.

While Interior generally agrees that a modest increase in royalty rates could possibly be accommodated without unfavorably affecting overall revenues and production, it currently opposes increasing royalty rates, maintaining that the risks of not leasing tracts under a higher royalty rate outweigh possible gains.

The Secretary of the Interior has the authority to offer a lease for a period up to 10 years when the Department finds the longer period necessary to encourage exploration and production in areas with unusually adverse conditions. Although the Secretary can use a 7-year lease term at any time, Interior does not believe that a 10-year lease term negatively affects OCS exploration and is not planning to implement the recommendation.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO believes that the PPSSCC's estimated savings has a large degree of uncertainty. For example, the PPSSCC estimated that making MMS an off-budget agency and eliminating congressional review of the OCS program would save an additional $1.5 billion over three years. GAO believes that this estimate, based on prior leasing results, is questionable since it is based on subjective revenue

estimates by Interior for specific sales. The PPSSCC also noted that the estimate was not fully supported due to the uncertainty of future OCS revenues. Therefore, the PPSSCC did not include these savings in its final estimate. (See Outlook For Achieving Fiscal Year 1983 Offshore Revenue Estimate--Possible But Not Likely, GAO/EMD-82-83, June 8, 1982.)

Also, insufficient time has elapsed for most tracts leased under alternative bidding systems with higher royalty rates to be explored and placed in production. Without production, the effect on royalty and total revenues to the government cannot be measured. Thus, GAO believes additional time is needed to determine the actual effects of the alternative systems on government revenues. Accordingly, GAO believes PPSSCC's savings estimate of $410.4 million is highly uncertain.

Other factors to consider include the normally substantial lead-time between the time a lease is awarded and exploration begins, the uncertainty associated with finding oil and gas, and the long time until production begins. Therefore, it is very difficult to predict what effect a 7-year lease term would have on government revenues. No estimate was given for the implementation of a 7-year lease term.

V. RELEVANT GAO REPORTS

GAO/RCED-83-139	Congress Should Extend Mandate To Experiment With Alternative Bidding Systems In Leasing Offshore Lands (May 27, 1983)
GAO/RCED-83-30	Interior Should Continue Use of Higher Royalty Rates For Offshore Oil and Gas Leases (Dec. 20, 1982)
GAO/EMD-82-83	Outlook For Achieving Fiscal Year 1983 Offshore Revenue Estimate--Possible But Not Likely (June 8, 1982)

VI. GAO CONTACT

Michael Gryszkowiec 275-5514

INT 8: BLOCK GRANTS

I. PPSSCC ISSUE AND SAVINGS

"Can regional administrative costs be reduced in the Fish and Wildlife Service (FWS) through the introduction of block grants?"

The PPSSCC estimated that "administrative cost reductions totaling $9.6 million over three years are possible; however, these Federal administrative savings would benefit the states in the form of increased revenues to them."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATION

The FWS provides grants under the Pittman-Robertson (1937) and Dingell-Johnson (1950) Acts to states for the purpose of administering fish and wildlife restoration projects. The funds to implement the grant program are collected through excise taxes levied on the sale of firearms, ammunition, and archery and fishing equipment. Up to 8 percent of restoration funds can be used for federal administrative purposes; the remainder is distributed to the states on a land area and number of fishing and hunting licenses formula basis for reimbursement (up to 75 percent) of state expenditures for fish and wildlife restoration projects.

The states decide which projects they would like funded by FWS. Generally, the FWS regional offices approve and monitor the states' use of the federal aid, unless the states have been approved to receive funds under the acts' "comprehensive plan option" (1970 amendment to the authorizing legislation). This option--a block grant-like approach--allows state fish and wildlife agencies, having an adequate and approved planning system, to manage their federal restoration aid and fund specific projects without individual FWS project approval.

The PPSSCC recommended implementation of a block grant approach to reduce staff in FWS regional offices and produce administrative cost savings. The PPSSCC noted that there has been excessive and generally nonproductive paperwork at FWS regional offices resulting in administrative waste. The FWS has already instituted the comprehensive plan approach in at least one of its 7 regions, thereby reducing federal grant oversight and administrative responsibilities.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC recommends that the FWS design and implement a block grant approach for funding its restoration aid programs. The PPSSCC recommendation can be implemented only with congressional approval. The current legislative authority provides that the states, not the Interior Department, can select one of two reimbursement options--a project-by-project option or a comprehensive plan option. In order to implement a general block grant approach, GAO believes that FWS would need to propose a legislative change. FWS is not planning to request this legislative change, according to FWS officials.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO has not reviewed the feasibility of administering FWS programs through the introduction of block grants and, as a result of insufficient cost savings information, GAO cannot determine the reasonableness of PPSSCC's savings estimates.

V. RELEVANT GAO REPORT

None

VI. GAO CONTACT

Michael Gryszkowiec 275-5514

CONST 5: RESTRICT MITIGATION OUTLAYS

I. PPSSCC ISSUE AND SAVINGS

"Are the current expenditures for mitigation and mitigation damages, in connection with the environmental process on construction projects, justified in terms of purpose and benefit or should new criteria to control these expenditures be developed?"

The PPSSCC estimated that $300 million could be saved out of the construction budget for Year 1 and $993 million over three years, if mitigation expenditures are controlled.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATION

The Fish and Wildlife Coordination Act, the Archeological and Historic Preservation Act, and the Endangered Species Act, as well as numerous other environmental laws require federal construction agencies to mitigate environmental damages caused by project construction. The Council on Environmental Quality defines mitigation to include:

--avoiding the impact altogether by not taking a certain action or parts of an action,

--minimizing impacts by limiting the degree or magnitude of the action and its implementation,

--rectifying the impact by repairing, rehabilitating or restoring the affected environment,

--reducing or eliminating the impact over time by preservation and maintenance operations during the life of the action, and

--compensating for the impact by replacing or providing substitute resources or environments.

The acts require the federal construction agencies to consult with Interior on the proposed mitigation actions.

The PPSSCC stated that through the extensive application of mitigation concepts, some agencies, such as Interior's Fish and Wildlife Service, have been able to increase significantly funds available over and above their congressional authorizations and appropriations by demanding or requiring the construction agencies to provide mitigation as a condition of project sign-off. The PPSSCC found numerous instances of mitigation which it concluded were excessive. These excesses, in part, occurred in the form of unreasonably expensive outlays for

little measureable benefit. The PPSSCC therefore recommended that "mitigation policies and practices be reviewed at the highest level to identify not only occasional instances of excessive mitigation, but also situations where unreasonable mitigation and even enhancement has been systematically introduced into the construction process". GAO has no position on whether expenditures for mitigation or mitigation damages are justified in terms of purpose and benefit.

GAO, however, reported in 1981 that the Fish and Wildlife Service was unable to (1) respond to all requests for studies, comments, and recommendations on how to minimize the impact of land and water development projects on fish and wildlife, (2) adequately study or timely recommend the potential impact of development projects on fish and wildlife, and (3) to routinely follow up on recommendations to federal agencies on fish and wildlife conservation efforts. This has resulted in FWS studies being performed after project planning is completed; costly delays in the planning process; and, at least in one case, a construction agency taking more action than necessary to protect the natural resources.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC stated that the results of the recommended review group should result in an Executive Order prescribing new guidelines and review responsibilities. Enforcement should be based on a monetary threshold bearing a reasonable relationship to the magnitude of the project and its impact. GAO disagrees that the actions proposed by the PPSSCC could be implemented through executive action. The Congress would have to amend the various environmental laws in question to allow federal agencies to use a monetary threshold in determining the reasonableness of mitigation actions at federal or federally-assisted projects. For example, the Endangered Species Act, as amended in 1978, precludes federal agencies from taking any action that would jeopardize survival of an endangered species regardless of the costs or benefits to be derived, unless the Endangered Species Committee grants an exemption from the protective provisions of the act. The committee may grant an exception only if it determines that the benefits of a federal action are in the public interest, clearly outweigh the benefits of conserving a species or its critical habitat, and that no reasonable and prudent alternatives to the federal action exist.

According to the Chief, Office of Endangered Species, no action has been or will be initiated to implement the PPSSCC recommended actions because FWS disagrees with the PPSSCC findings.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

Based on data from the Corps of Engineers and the largest construction agencies, the PPSSCC estimated that "approximately 1 percent of the annual federal construction budget, $300 million, could be saved through the elimination of unreasonable mitigation". GAO has not made a comparative analysis of the costs associated with the PPSSCC recommendation.

V. RELEVANT GAO REPORTS

GAO/RCED-84-114	Federal Government's Progress In Implementing A National Archeological and Historic Preservation Program (May 30, 1984.)
GAO/CED-81-107	National Direction Required For Effective Management of America's Fish and Wildlife (Aug. 24, 1981.)
GAO/CED-81-61	Are Agencies Doing Enough Or Too Much for Archeological Preservation? Guidance Needed (Apr. 22, 1981.)
GAO/CED-79-65	Endangered Species--A Controversial Issue Needing Resolution (July 2, 1979.)

VI. GAO CONTACT

Michael Gryszkowiec 275-5514

CONST 8: ELIMINATE DUPLICATIVE HISTORIC PRESERVATION REGULATIONS

I. PPSSCC ISSUE AND SAVINGS

"Should the complex procedural requirements developed by the Advisory Council on Historic Preservation (ACHP)[1] implementing Section 106 of the National Historic Preservation Act be eliminated, since the National Environmental Policy Act (NEPA) provides adequate procedures for complying with Section 106?"

The PPSSCC estimated that $40 million could be saved annually amounting to $132.4 million over three years.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

Section 106 of the National Historic Preservation Act of 1966 requires federal agencies to provide the ACHP a reasonable opportunity to comment on any proposed federal or federally assisted or licensed undertaking on any district, site, building, structure, or object that is included in or eligible for inclusion in the National Register before an agency approves any federal funds or issues any license. Under the 1976 amendments to the act, ACHP is authorized by section 211 to promulgate such rules and regulations as it deems necessary to govern the implementation of section 106. These regulations, issued as 36 CFR 800, describe the process by which the head of a federal agency is to take effects into account and afford ACHP an opportunity to comment.

The PPSSCC believes that the ACHP regulations contribute significantly to project development time, result in duplication of reports, and involve substantial additional costs to be paid out of federal funds. The PPSSCC concluded that the NEPA environmental review process could be used to achieve the desired coordination with the Advisory Council.

The PPSSCC therefore recommended that Section 106 of the National Historic Preservation Act be retained, but that the ACHP regulations be eliminated. GAO does not agree with the PPSSCC recommendation that ACHP procedural requirements be eliminated. NEPA is a generalized statute which identifies broad goals and objectives with no specific standards or criteria for the measurement of environmental quality, although it does provide for a process to discover, specify, and evaluate potential

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[1]An independent agency within the executive branch that advises the President and the Congress on historic preservation matters.

impacts on environmental elements, which is accomplished through the preparation of an Environmental Impact Statement (EIS). However, NEPA does not resolve conflicts between development and environmental interests nor does it require agencies to address the impact of development on historic properties, as does the section 106 consulting process. Therefore, the NEPA process is less reliable than is the section 106 process as a means of ensuring that historic properties are adequately taken into account in agency planning, which is the fundamental requirement of section 106. Also, the ACHP estimates that at least 95 percent of their current caseload consists of cases which are not covered by an EIS. Therefore, if the current ACHP regulations were to be eliminated, many projects which could effect historic properties would not be identified and reviewed.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

PPSSCC believes the recommended action can be implemented by rescinding the present executive order and substituting a new one which would simply assign the subject matter to the NEPA umbrella process. Since the only executive action referred to in CONST 8 is the supposed direction received from President Carter's Water Resource Memorandum dated July 12, 1978, the implication is that there is a Carter executive order that undergirds ACHP's regulations. This is incorrect. The regulations were published in essentially their present form on January 25, 1974, as "procedures", and were in place when President Ford signed into law section 211 of the National Historic Preservation Act in 1976, which established ACHP's rule making authority. These procedures were amended and published as regulations in 1979, incorporating the requirements of President Carter's Water Resource Memorandum.

GAO does not believe the recommendation can be implemented simply by executive order as the PPSSCC suggested. Elimination of the ACHP's regulations would require either congressional action to repeal ACHP's authority to promulgate regulations or actions by ACHP to repeal its regulations. GAO agrees with the PPSSCC that the President by executive order can require executive branch agencies to solicit and address ACHP's comments as part of the NEPA process. As a practical matter, however, this would allow agencies to meet their responsibilities under section 106 only when the proposed development is a "major federal action" and an EIS is prepared. If the development is not so classified, federal agencies would have to solicit ACHP's comments by some other mechanism.

During the fiscal year 1985 appropriation hearings, Congress made it clear that the ACHP's regulatory system has worked well in the past and should continue with revisions only to reflect the National Historic Preservation Act Amendments of 1980.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

PPSSCC's estimated annual savings of $40 million were derived from federal agencies as follows

Federal Highway Administration (FHWA) (based on estimated time spent on ACHP regulation compliance)	$10 million
Corps of Engineers (based on 45 staff years of effort to comply with preservation regulations at $60,000 per staff year)	$ 3 million
Three other federal agencies (based on 450 staff years at $60,000 per staff year)	$27 million
Total	$40 million

GAO believes PPSSCC's estimated cost savings are overstated. Various agencies, in commenting on PPSSCC's estimated savings, stated that FHWA's effort to ascertain ACHP regulation compliance cost relied on cost data whose accuracy was questioned by those who supplied it. The Corps of Engineers, commenting on a draft of CONST 8, stated that it could not substantiate the $3 million cost attributed to it, and projected annual costs of about $600,000 instead. ACHP, in trying to ascertain how PPSSCC's $27 million for other federal agencies were derived, contacted these agencies and found no documentary or other basis for PPSSCC's assumptions. Based upon data ACHP received from these agencies, ACHP was able to project costs in the neighborhood of about half of the $27 million attributed to them by PPSSCC. However, it must be recognized that the costs identified may not always be those of complying with the ACHP's regulations per se, because ACHP's section 211 regulations are only a small part of about 44 laws addressing environmental concerns and historically, agencies have not broken these costs out on a per law basis.

V. RELEVANT GAO REPORTS

GAO/RCED-81-114	Federal Government's Progress In Implementing A National Archeological and Historic Preservation Program (May 30, 1984)
GAO/CED-81-61	Are Agencies Doing Enough Or Too Much For Archeological Preservation? Guidance Needed (Apr. 22, 1981)

VI. GAO CONTACT

Michael Gryszkowiec 275-5514

CONST 12: COMBINE ENDANGERED SPECIES CONSULTATION WITH NEPA REVIEW

I. PPSSCC ISSUE AND SAVINGS

"Should the regulations implementing Section 7 of the Endangered Species Act be revised to integrate endangered species reviews within the National Environmental Policy Act (NEPA) process?"

The PPSSCC estimated that annual savings in administrative costs would be $6 million and three-year savings $19.9 million.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATION

The Endangered Species Act of 1973, as amended, prohibits federal agencies from taking any action which is likely to jeopardize the continued existence of any threatened and/or endangered species or which will result in the destruction or adverse modification of the habitat for such species. Section 7 of the act provides the framework for an elaborate consultation process which gives the Department of the Interior an effective veto over projects affecting such species. Each agency must perform a biological assessment on a project-by-project basis to determine whether the proposed project will have an adverse affect on endangered species or their habitat.

The PPSSCC stated that the then current Endangered Species Act procedures clearly needed to be improved. Two of the objectives that should be considered for improvement and change were:

--Integrating endangered species reviews with the Environmental Impact Statement (EIS) process under the National Environmental Policy Act, and

--Establishing minimum requirements for agencies to meet in their biological assessments to assure that they will be acceptable.

The PPSSCC noted that the Department of the Interior's then current draft Proposed Rules for Interagency Cooperation partly addresssed most of the PPSSCC's concerns. However, the PPSSCC stated that "minimum requirements for biological assessments and accelerated consulting procedures when species are identified after completion of the EIS (or after construction has commenced) are not specifically addressed."

The PPSSCC therefore recommended that the regulations implementing Section 7 be revised to integrate endangered species consultations within the NEPA process and that the

Fish and Wildlife Service propose guidelines for biological assessments. GAO agrees that the two processes should be better integrated to eliminate duplication while meeting each law's specific objectives and that minimum biological assessment criteria be developed.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC stated that the recommendation can be implemented under current executive authority. GAO agrees. According to the Chief, Office of Endangered Species, the Department of the Interior proposed revised Section 7 regulations in mid-1983 which (1) place more emphasis on coordinating activities under the Endangered Species Act and NEPA and (2) specify minimum data that is needed to perform a biological assessment. The final regulations are awaiting review by Interior's Office of the Solicitor.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

Based on saving three staff-months (estimate provided by agency environmental staffs) per project, the PPSSCC estimated a net savings in personnel costs of about $6 million annually assuming 500 federal projects. Savings for years 2 and 3 are estimated at $6.6 million and $7.5 million. A FWS official responsible for developing the revised Section 7 regulations, however, could not estimate the potential savings that would result from this revision. This official stated that FWS always coordinated its activities with the NEPA process to minimize duplication. GAO has not reviewed the two processes and therefore has no basis for evaluating the PPSSCC savings estimate.

V. RELEVANT GAO REPORTS

Letter report	To the Assistant Secretary of the Interior for Fish and Wildlife and Parks concerning actions taken on recommendations contained in the following report. (Apr. 1, 1982)
GAO/CED-79-65	Endangered Species--A Controversial Issue Needing Resolution (July 2, 1979)

VI. GAO CONTACT

Michael Gryszkowiec 275-5514

CONST 14: CHANGE DREDGED MATERIAL DISPOSAL POLICIES

I. PPSSCC ISSUE AND SAVINGS

"Should policies, regulations, and guidelines governing the disposal of dredged material in open waters (including the ocean) be revised to achieve a better balance between environmental protection and project costs?"

The PPSSCC estimated that one-time savings of $359 million and annual savings of $65 million for a three year saving of $574.2 million could be achieved by revising current policies, regulations, and guidelines.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATION

The Corps of Engineers dredges material from river or harbor bottoms to provide or restore navigation channels. Disposal of this dredged material is affected by 5 major pieces of environmental legislation. The objective of each law is to protect one aspect of the possible disposal mediums such as the ocean, rivers and streams, groundwater, wetlands, and land. The PPSSCC maintains that these laws--enacted over a period of several years--and their implementing regulations are thus fragmented, inadequately coordinated, and have contradictory objectives. According to the PPSSCC, this has resulted in increased disposal costs.

The PPSSCC recommended that the President have OMB set up a multi-agency group to look at the specific, technical program changes suggested in its report and develop a national dredged material management strategy and implementation procedures. GAO agrees that the issue has merit. In a section of a 1978 GAO report dealing with air and water pollution laws, GAO noted that in some cases, the then-current federal strategy of establishing uniform, rigid requirements based on control technology is environmentally counterproductive. GAO further noted that these

> ". . . laws and resultant regulations often overlap confusingly in their effects both physical and fiscal. The situation often arises where compliance with one law or regulation results in violation of another."

For example, traditionally, most sludge from municipal waste treatment plants has been either incinerated or dumped in the oceans. Current laws, however, either prohibit or severely restrict these modes of disposal,

thus land application has increased. This has caused problems, especially for large urban areas, because of high costs, unavailability of land, and unknowns concerning sludge effects on drinking water and food products.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC states that all the improvements called for by its suggested program changes could be accomplished without legislative action. GAO is not so sanguine that major program changes such as these could be successfully promulgated and implemented by executive branch action alone. The existing allowable pollution levels and the regulations implementing them have been forged between three branches of the federal government with intense citizen involvement. Regulations promulgated under existing law are subject to intense review within and outside government, and federal agencies responsible for environmental protection are subject to congressional review and oversight. When GAO examined EPA efforts to control the total pollution in 1978, it recommended that the Congress should give EPA the authority to use alternative control strategies, even though the EPA cited sections of existing law that would allow them to consider one strategy's effect on pollution levels in other media.

IV. GAO ANALYSIS OF SAVINGS ESTIMATES

The PPSSCC estimated one-time savings of $359 million by (1) utilizing state-of-the-art scientific procedures to determine suitability of open water disposal instead of diked containment in the Great Lakes, (2) revising EPA's policy of requiring EISs for final ocean disposal site designations instead of site-by-site evaluations and use of NEPA procedures, and (3) revising EPA's policy that the ocean be considered a last alternative for dredged material disposal. The PPSSCC also estimated on-going annual savings of $65 million could be achieved by implementing a national dredged material management strategy, adopting more scientifically appropriate and less costly testing protocols for dredged material, and revising the EPA policy of using the ocean as the last alternative for dredged material disposal.

The savings estimates are made up of 3 changes that are said to offer one-time savings of $359 million, and 3 more changes that would offer on-going yearly savings of $56-79 million (captured as $65 million in the opening statement). These estimates of decreased costs rest almost entirely on PPSSCC assumptions that existing testing for pollutants is scientifically incorrect. GAO did not attempt to validate these assumptions and cannot, therefore, comment on the reasonableness of the cost

savings from a technical basis. From a methodological point of view, however, only one savings estimate appears to be fully supported. To develop this estimate the PPSSCC used a detailed Corps estimate of savings possible on one port expansion project and extrapolated this to 5 other potential similar projects. This produced one-time savings of $180 million and annual maintenance savings of $6 million if ocean disposal of harbor dredging could be used instead of the allowable, but costly alternative methods.

For the remaining $179 million of one-time savings and $50-$73 million of annual savings, the estimates are based on much less information and on Corps of Engineers' opinions. These opinions are not confirmed in the PPSSCC report through non-Corps sources and are imprecise enough (i.e., "approximately one-half to two-thirds of this testing is probably unnecessary"; "at least half this confinement capacity would not be required"; "precise estimates can not be made . . . but about 10-15 percent of current costs could be eliminated") to make the estimates problematical. Because of this, GAO believes that these possible savings should be mentioned as not-yet-proven, and that more exact estimates of what savings could result, if any, would depend on the completion of detailed studies.

V. RELEVANT GAO REPORTS

GAO/CED-80-71	Managerial Changes Needed to Speed Up Processing Permits for Dredging Projects (June 9, 1980)
GAO/CED-78-148B	16 Air and Water Pollution Issues Facing the Nation (Oct. 11, 1978)
GAO/CED-78-17	Improvements Needed in the Corps of Engineers' Regulatory Program for Protecting the Nation's Waters (Dec. 23, 1977)
GAO/CED-77-74	Dredging America's Waterways and Harbors--More Information Needed on Environmental and Economic Issues (June 28, 1977)

VI. GAO CONTACT

Michael Gryszkowiec 275-5514

CONG 2-2: CLOSING FEDERAL FISH HATCHERIES

I. PPSSCC ISSUE AND SAVINGS

The PPSSCC recommended that legislation be introduced to close twenty-five fish hatcheries operated by the National Fish and Wildlife Service. The PPSSCC estimated that a three-year savings of $10.9 million would result from this action.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATION

The Department of the Interior's Fish and Wildlife Service manages a network of fish hatcheries throughout the nation whose output is used to restock streams, rivers, ponds, lakes and other bodies of water. In 1983, Interior proposed to close or transfer to state management 25 fish hatcheries because they did not contribute substantially to major federal responsibilities and, in some cases, the output of these hatcheries was used to support management of state-owned waters and to stock farm ponds on private lands.

The PPSSCC recommended that such hatcheries be closed. GAO agrees that the Service should dispose of hatcheries which do not contribute to or are not needed for fish propagation objectives. In 1981, GAO reported that the National Fish Hatchery System is not effectively managed because the Service has not been able to establish national priorities for which species should be propagated and which hatcheries should be operated. As a result, the Service continues to operate hatcheries it considers excess to its needs. GAO recommended that Interior direct the Fish and Wildlife Service to determine which marginal refuges and hatcheries could be eliminated, propose a plan to the Senate and House Appropriations Committees setting forth the reasons why they should be discontinued, and seek approval from the committees to close them.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that congressional authority will be needed to close hatcheries. In a report on the 1980 appropriations bill, the Senate Appropriations Committee directed that any changes affecting any state or other cooperator be submitted for committee review and approval before implementation. Since the PPSSCC report was issued the FWS has transferred 16 fish hatcheries to states and/or a university. Four others are now being funded by the Bureau of Indian Affairs. In its fiscal year 1984 budget request the FWS proposed closing and/or transferring 7 other hatcheries, but the Congress did not concur. FWS has not requested any closures or transfers

in subsequent budget requests. According to a FWS official, rather than closing a facility the agency is changing the particular species to be propagated to one that is in the national interest.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

PPSSCC's saving estimate, $10.9 million over 3 years, appears reasonable based on an Interior 1983 estimate that $3.3 million could be saved annually by closing the 25 fish hatcheries. However, according to a FWS official, the savings are somewhat high because the actual number of hatcheries to be closed and/or transferred keeps changing.

V. RELEVANT GAO REPORT

GAO/CED-81-107 National Direction Required for Effective Management of America's Fish and Wildlife (Aug. 24, 1981)

VI. GAO CONTACT

Michael Gryszkowiec 275-5514

I. PPSSCC ISSUE AND SAVINGS

"Does the Urban Mass Transportation Administration (UMTA) employ management and financial tools that permit adequate execution of its grant administration responsibilities?"

The recommended changes will generate net savings of $48.0 million in the first year and a total three-year cost savings of $163.5 million.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO and UMTA have been aware of problems with UMTA'S management information system for several years before the PPSSCC study. GAO had reported to the Congress (GAO/CED-81-28, February 26, 1981) that UMTA's automated information systems needed to be substantially improved. The report stated that the automated financial information and the automated project information system was unreliable, and that reports produced by the automated systems were inaccurate. GAO recommended that the Secretary of Transportation direct the UMTA Administrator to give top priority to determining the agency's needs for automated information systems, initiating appropriate action to fulfill these needs, and assuring that the agency efficiently use existing automated information systems. The report did not include any savings estimates that would result from system improvements.

GAO concurs with the PPSSCC's recommendations that (1) UMTA and DOT should make a commitment to design, develop, install and maintain a new management information system, (2) DOT and UMTA should select a full-time project general manager to work on the project through completion, and (3) a project team of users should be selected to design, develop, install and maintain the new system. Implementation of the recommendations should achieve the improvements needed.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

Implementation of the recommendations is within the authority of the agency. No legislation is needed. UMTA agrees with the basic intent of the PPSSCC's recommendations and began revising its management information system in 1981. Issuance of the PPSSCC's report gave UMTA additional support for changing the system. A new financial management system was implemented on October 1, 1983. UMTA requested and received approval for a major investment in new computer hardware for improving the grants management system. A contract award for this hardware is planned for early fiscal year 1985.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

Although GAO made no independent savings estimate, GAO questions whether the savings estimated by the PPSSCC will materialize. DOT officials advised us that while benefits will occur, they will not be in the form of savings claimed by the PPSSCC. DOT has estimated that during fiscal year 1985 the net savings from implementing the recommendations will amount to $1.25 million, considerably less than the amount estimated by the PPSSCC. The savings will result from more timely disbursement of funds under current program requirements thereby reducing Treasury borrowing costs.

UMTA officials said that the savings will not materialize as claimed by the PPSSCC because most funds are now provided to grantees by formula and the local governments will receive the same amount of money regardless of how effective the management information system is. GAO was told by UMTA that the PPSSCC estimate was based on providing grants on a discretionary basis, which would permit denials of funds.

Since more funds are now provided to grantees by formula than was done when the PPSSCC made its recommendation and UMTA cannot deny formula funds to local governments, it appears that the lower savings estimate made by DOT is more in line with the benefits that will occur.

V. RELEVANT GAO REPORT

GAO/CED-81-28 Soaring Transit Subsidies Must Be Controlled (Feb. 26, 1981).

VI. GAO CONTACT

Oliver Krueger 275-6111

TRANS 6: FEDERAL HIGHWAY PROGRAM CATEGORIES

I. PPSSCC ISSUE AND SAVINGS

The PPSSCC believes cost effectiveness of federal highway programs can be improved by using better techniques of resource allocation.

An estimated $297.0 million in grant funds can be saved in the first year according to the PPSSCC, $326.7 million in the second year, and $359.4 million in the third year, resulting in a total of $983.1 million over 3 years. The savings would result as states eliminated what the PPSSCC describes as marginal programs in the consolidation process.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC has made four recommendations which it believes would improve the cost effectiveness of federal highway programs. The recommendations are (1) to consolidate programs; (2) turn revenue back to the states; (3) implement multiyear funding; and (4) increase states' cross program funding flexibility. GAO has in the past argued in favor of consolidating closely related programs, has no basis for an opinion on turning revenue back to the states, and believes that multiyear funding and cross program funding flexibility already exists.

GAO believes the recommendation to consolidate programs has merit. GAO favored consolidating closely related programs within a functional area to improve administrative efficiency and reduce the potential for duplication. In its report, Fundamental Changes Are Needed in Federal Assistance to State and Local Governments, GGD-75-75, August 19, 1975, GAO concluded that government-wide the number and variety of federal assistance programs has made it extremely difficult for state and local governments to use this assistance effectively and recommended that the Congress consider consolidating programs serving similar objectives into broader purpose programs. In its report, Consolidation of Federal Assistance Resources Will Enhance the Federal-State Emergency Management Effort, GAO/GGD-83-92, August 30, 1983, GAO concluded that a consolidated assistance program that retains state accountability for achieving specific federal objectives would substantially enhance the effectiveness and efficiency of the federal-state emergency management effort and recommended that the Federal Emergency Management Agency, the subject of the report, prepare a legislative proposal to remove statutory restrictions that prevent or complicate related program consolidation. Although GAO has not evaluated the effectiveness of the sum of the national and special purpose highway programs, the PPSSCC is

recommending reducing the number and variety of such programs which on the surface appear to have potential for consolidation.

GAO has no basis for an opinion on the separate recommendation to turn highway tax revenue collected by the federal government back to the states. For this recommendation to be viable, the states would need the authority to determine what funds should be spent and appropriate funding levels. If this were the case, Congress will have to decide whether the states should be extended this authority.

GAO believes the PPSSCC recommendations to implement multiyear funding and increase the flexibility to shift funds between programs are moot because this authority already exists. Contract authority in the highway program currently provides the Secretary of Transportation authority to obligate interstate highway funds for 2-year periods and noninterstate funds for 4-year periods. The large majority of highway program authorizations already allows for the transfer of funds among certain highway programs.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO believes that consolidating programs has merit, but its implementation depends on the Congress' taking legislative action to consolidate programs. GAO as previously noted, has no basis for opinion on turning revenue back to the states. With respect to implementing multiyear funding and increasing cross program flexibility, authority already exists to do so. The Department states that multiyear funding for contract authority and cross program fund flexibility was enacted with the passage of the Surface Transportation Assistance Act of 1982.

As of September 24, 1984, the Department had requested no funds in the FY 1985 budget for many of the programs identified for elimination by the PPSSCC, although it has not taken a position on eliminating the programs per se.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC's entire $983.1 million savings estimate is associated with the recommendation to consolidate programs. The PPSSCC did not quantify savings associated with the other three recommendations.

GAO has no basis for an opinion on the savings estimate because the PPSSCC does not provide support as to why the states would, in the course of consolidating programs, eliminate expenditures as assumed by the PPSSCC. These expenditures are the source of the PPSSCC's savings.

V. RELEVANT GAO REPORTS

GAO/CED-84-69	The Department of Transportation's Program to Preserve the Highways: Safety Remains An Issue (Dec. 23, 1983)
GAO/GGD-83-92	Consolidation of Federal Assistance Resources Will Enhance The Federal-State Emergency Management Effort (Aug. 30, 1983)
GAO/GGD-82-79	Early Observations on Block Grant Implementation (Aug. 24, 1982)
GAO/GGD-75-75	Fundamental Changes Are Needed in Federal Assistance to State and Local Governments (Aug. 19, 1975)

VI. GAO CONTACT

Oliver Krueger 275-6111

TRANS 10: POTENTIAL FOR CONSOLIDATING FEDERAL RAILROAD ADMINISTRATION SAFETY AND R&D FUNCTIONS AND INITIATING A SYSTEM OF USER FEES

I. PPSSCC ISSUE AND SAVINGS

"Does the Federal Railroad Administration's (FRA) having separate research and development (R&D) and safety functions lead to duplication and unnecessary expense? Should a system of user fees be established for them?"

The PPSSCC estimated that $3.3 million can be saved over 3 years by consolidating the two above functions. Savings from reducing the number of FRA-funded R&D projects and from collecting user-fee income and/or fines over 3 years are estimated at $78.4 million. Included in the $78.4 million is $4 million from transferring FRA's test facility (Facility for Accelerated Service Testing) to the private sector.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

While in cases like TRANS-6 and -11 reorganizations may result in savings or improved efficiency, in this situation GAO disagrees with consolidating FRA's safety and R&D functions and setting fines to fully recover R&D and safety costs. GAO also questions the advisability of charging user fees for these services.

Although combining the safety and R&D functions, as the PPSSCC recommends, may produce possible savings, GAO does not believe they should be combined because the functions have different, although interrelated, missions. The R&D function relates to testing existing rails, tracks, and equipment including new practices and standards to enhance railroad safety. The regular safety program is designed to fulfill FRA's day-to-day responsibility to enforce regulations governing train operations.

FRA has performed some comprehensive system assessments that focused broadly on the railroads' overall safety programs. Based on these assessments FRA has fined railroads when safety violations indicate such action is warranted. The PPSSCC recommends that FRA continue to perform broad-based system assessments of railroad safety. In addition, the PPSSCC recommends that (1) FRA charge a user fee to recover the costs of such assessments and (2) the assessments not result in potential violations citations but in a list of needed safety improvements. FRA would follow up on the railroads' corrective action taken in 6 to 12 months and cite violations if corrections are not made. PPSSCC suggests that railroads have the option of FRA performing the broad based assessments for a user fee. For those railroads not opting for an assessment, however, FRA would perform mandatory inspections with fines for noted violations.

In the interest of safety, some railroads perform such assessments with their own personnel, and as a result, may not opt to have FRA perform such assessments. While not disagreeing with FRA performing broad based assessments, GAO believes that FRA, when carrying out its safety inspections, should not be precluded from initiating immediate enforcement action based on such an assessment. If FRA found a major safety problem during such an assessment, it should have available all enforcement options to require immediate corrective actions, including imposing a fine. This would be precluded under the process PPSSCC recommends.

The primary purpose of fines, according to the PPSSCC, is to enforce railroad safety and cost recovery is a secondary purpose. The PPSSCC added that the combined fee and fine recovery should cover FRA's R&D and safety costs, exclusive of administration. GAO believes that considering recovery of costs as a basis for fines could distort the fines, making them too large or too small for the violation. The amount of a fine should be established based on the type and severity of the violation and not related to cost recovery.

The study recommends that FRA offer additional R&D services to the private sector on a user fee basis in a manner similar to private consulting firms. The PPSSCC does not discuss whether the safety benefits of an FRA R&D project would be available to other railroads who did not contract for such services. GAO does not agree with this PPSSCC recommendation because in GAO's opinion, the potential benefits should not be limited. Since FRA has a responsibility to promote safe rail transportation, any potential safety enhancement should be offered to other railroads so that the public can realize such benefits.

GAO has no basis for an opinion regarding the recommended transfer of the Facility for Accelerated Service Testing to the private sector. The facility is used to support tests and experiments on track and components and on vehicles and their components by operating a train under controlled conditions.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

According to the PPSSCC, the Administrator, with the Secretary's approval, should develop a plan for consolidating the safety and R&D functions and narrowing the R&D focus and make funding requests for the House Appropriations Committee's approval. Further, PPSSCC recommends that the Secretary submit a legislative proposal to authorize the imposition of user fees.

While consolidating FRA safety and R&D functions may be feasible within FRA's authority, GAO is concerned about the negative effect on safety and R&D of such a consolidation.

Regarding FRA charging for system assessments, some railroads have their own safety assessment programs and therefore may not participate in FRA's program. Further, as discussed previously, charging fees based on the type and severity of the violation raises questions of equity. Charging for its R&D projects, as private consulting firms do is legal, but is not a traditional role of a federal agency. The Department is not pursuing the recommendation to collect such user fees. GAO believes that the Congress, through its oversight function, should be involved because of the recommendations' impact on safety and the railroad industry.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC's $3.3 million estimated savings over a 3-year period from combining FRA's safety and R&D functions is based on eliminating 16 positions and narrowing the R&D focus. GAO agrees that should the R&D effort be reduced, staffing could be reduced. Also, savings occur from reducing the R&D effort.

The PPSSCC estimated that about $78.4 million over a 3-year period would be collected from user-fee income and/or fines. In developing this estimate the PPSSCC study is assuming that full recovery of R&D and safety costs will be achieved in the third year. Since no basis is given for the the estimated amount to be collected, GAO cannot comment on the ability to recover the entire $78.4 million. However, the $4 million of savings from transferring the test facility to the private sector is correct.

V. RELEVANT GAO REPORTS

GAO/RCED-83-32	Assessment of the Department of Transportation's Systems Safety Plan (Dec. 21, 1982)
GAO/RCED-82-51	The Federal Approach to Rail Safety Inspection and Enforcement: Time for Change (Apr. 19, 1982)
Testimony	Rail Safety Inspection and Enforcement by Oliver W. Krueger, Resources, Community, and Economic Development Division, before the Subcommittee on Commerce, Transportation and Tourism, House Committee on Energy and Commerce. (Apr. 22, 1982)

VI. GAO CONTACT

Oliver Krueger 275-6111

I. PPSSCC ISSUE AND SAVINGS

"What modifications can be made in the organizational structure and programs of the DOT land modal administrations to make the safety function more effective and efficient?

The Task Force [PPSSCC] recommendations will result in first-year savings of $2.8 million, second-year savings of $5.7 million, and third-year savings of $6.4 million."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATION

GAO believes that certain DOT safety functions have potential for review to determine whether or not consolidation would be more effective and efficient. Presently, similar responsibilities for rulemaking, enforcement, and providing grants to states and local governments are spread among several DOT administrations--the National Highway Traffic Safety Administration (NHTSA), the Federal Highway Administration (FHWA), and the Bureau of Motor Carrier Safety (BMCS) FHWA. Many of the regulatory activities overlap the responsibilities of these administrations. These administrations regulate motor vehicles, commercial trucks, vehicle parts, commercial vehicle operators, transportation of hazardous waste material, and administer grants aimed at motor vehicle and highway safety and the promotion of mass transit systems. For instance, FHWA is primarily oriented toward highway construction; however, it shares the responsibility of highway safety with NHTSA.

Generally, the PPSSCC recommendations for consolidating DOT's safety functions should be fully explored. However, neither PPSSCC, DOT nor GAO performed a cost/benefit study regarding the consolidation of the motor vehicle and highway safety regulations and enforcement activities, grant activities, and the hazardous waste material activities. GAO believes that lacking such a study, whether any net benefit can be attributed to consolidating these agencies is questionable.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

DOT indicates that legislative authority is needed to permit the consolidation of the safety functions. As of September 1984, the Congress had not acted on the Department's proposal seeking authority to reorganize the various safety administrations.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

PPSSCC's position that consolidation of DOT's safety functions will result in more efficient and effective administration of these activities should be fully explored.

Rulemaking and enforcement of safety requirements for motor vehicles and commercial trucks and operators must be well managed and coordinated with industry and states and local governments in addressing motor vehicle safety-related issues if savings are to be achieved. The consolidation of responsibilities and staffs under a single agency may be able to achieve some measurable dollar savings and result in more effective and efficient safety functions.

GAO believes, however, that PPSSCC's estimate of staff reduction of 124 people and savings of about $5 million over 3 years does not take into account the congressional concern that the Department needs to increase the safety functions in the areas of motor vehicle safety, commercial trucks, and transportation of hazardous waste materials.

In October 1983, the Secretary of DOT transmitted a draft of a proposed bill to the Congress. The purpose of the legislation was to seek authority to consolidate, in a newly established National Traffic Safety Administration, DOT functions and programs relating to highway safety that are now distributed in two existing administrations--NHTSA and BMCS. DOT indicated that, while there may be some cost savings as a result of the reorganization, primarily through the consolidation of support functions, they would not be significant nor are they among the reasons for undertaking the reorganization. The main purpose was to enhance safety. Although bills were introduced in the Congress seeking authority to consolidate certain DOT safety functions the bills were not acted upon by the oversight committees.

V. RELEVANT GAO REPORTS

GAO/CED-82-24	Strengthening Transportation Policy Development and Implementation (Sept. 9, 1982)
GAO/CED-82-22	Better Administration of Capital Grants Could Reduce Unnecessary Expenditures on Mass Transit Projects (Apr. 20, 1982)
GAO/GGD-81-32	The Trucking Industry's Federal Paperwork Burden Should Be Reduced (Mar. 3, 1981)
GAO/CED-80-87	Highway Safety Research and Development--Better Management Can Make It More Useful (July 28, 1980)

VI. GAO CONTACT

Oliver Krueger 275-6111

TRANS 15: FEDERAL AVIATION ADMINISTRATION ORGANIZATION AND STAFFING

I. PPSSCC ISSUE AND SAVINGS

"Can Federal Aviation Administration (FAA) staffing be reduced by consolidating facilities?"

Recommendations to accelerate consolidation of some regional offices and Air Route Traffic Control Centers (ARTCC) are estimated to reduce staff by 654 and produce 3-year savings of $445.4 million with no adverse impact on safety.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC recommended that FAA consolidate its nine regional offices into seven regions, by consolidating Eastern region headquarters (New York) with New England region headquarters (Boston); and consolidating Great Lakes region headquarters (Chicago) with central region headquarters (Kansas City). Based on our 1982 comments in a letter to Senator Hart (B-206454; February 25, 1982; Code 341038) about the FAA plan to close the Denver and Honolulu regional offices and consolidate their function with the Seattle and Los Angeles regional offices, respectively, GAO agrees with the PPSSCC recommendation that regional office consolidation could result in savings.

PPSSCC also recommended that ARTCCs be reduced from 22 to no more than 15. GAO has not reviewed the matter of ARTCC consolidation, and accordingly has no opinion.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that consolidation of FAA regions and reduction of ARTCCs can be accomplished by executive action.

The Department of Transportation stated that the consolidation of ARTCCs referred to by the PPSSCC has been replaced with the Area Control Facility (ACF) concept which is part of the National Airspace System Plan. The ACF concept calls for consolidation of air traffic control facilities while maximizing the utility of advanced automation. ACF will realign boundaries based on traffic flows throughout large geographic areas, and will reduce the number of radar control facilities from 208 (20 ARTCCs and 188 terminal radar approach control facilities) to 23. The ACF concept is consistent with PPSSCC's recommendation to reduce the number of ARTCCs.

While FAA's plan to adopt the ACF concept addresses the recommendation to reduce the number of ARTCCs, it does not cover the recommended FAA regional office consolidation.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO agrees that consolidation of FAA regions can eliminate staff positions and result in long-term savings. The PPSSCC's estimated 3-year savings of $27 million is based on a staff reduction of 234 people. On the other hand, the 1981 FAA consolidation plan, on which GAO reported, estimated 5-year savings of $28.3 million by eliminating 156 positions. The 1981 FAA plan called for closing FAA's Denver and Honolulu offices and consolidating them with the Seattle and Los Angeles offices, respectively. The Grace Commission recommended the consolidation of FAA's Boston and New York regions with Boston being the favored location for the regional headquarters, and the consolidation of the Chicago and Kansas City regions with Kansas City being the favored location. The Grace Commission's proposed consolidations are different locations than what FAA proposed in 1981. We have no basis for assessing the cost-benefit or other factors which may influence the relocation of regions for consolidation.

Since GAO has not reviewed the matter of ARTCCs consolidation, we have no basis by which to judge the savings associated with such a consolidation.

V. RELEVANT GAO REPORTS

GAO/CED-82-45	Assessment of the Federal Aviation Administration's Plan to Close Its Denver and Honolulu Regional Offices (Feb. 25, 1982)
Testimony	FAA's Planned Consolidation of Regional Offices, by Henry Eschwege, Director Community and Economic Development Division, Before the Subcommittee on Government Activities and Transportation, House Committee on Government Operations (July 21, 1981)

VI. GAO CONTACT

Oliver Krueger 275-6111

TRANS 16: CLOSING OR RESTRUCTURING THE OPERATIONS OF LOW-VOLUME CONTROL TOWERS

I. PPSSCC ISSUE AND SAVINGS

"Can low-volume airport control towers be closed or more effectively managed locally by public or private airport operations?

"A combination of these activities could result in first-year savings of $45.6 million and 3-year cost savings of $150.9 million."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO agrees with the PPSSCC's recommmendations to discontinue or reduce operating hours of some airport traffic control towers. In a June 1981 report (CED-81-100), GAO identified millions of dollars in savings if FAA identified and closed economically unjustified control towers.

GAO's June 1981 report pointed out that FAA's airport control tower discontinuance criteria is not uniform, and has resulted in the continued operation of economically unjustified control towers. GAO also reported that FAA is not surveying air traffic activity levels at some 24-hour control towers to identify possible reductions in hours of operation.

The PPSSCC recommendations to close towers according to FAA criteria and reduce operating hours of many towers were substantially the same as the recommendations contained in GAO's June 1981 report.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that the FAA Administrator has the authority to implement the recommendations.

In commenting on the June 1981 report, FAA stated that it generally concurred with the report recommendations. In November 1981, FAA established uniform decommissioning criteria for towers.

Because of the air traffic controller strike in August 1981, FAA temporarily closed 80 towers, including 49 of the 66 identified by GAO. However, as of November 30, 1984, 54 of the 80 towers had been reopened. Decommissioning criteria were not applied in either the temporary closing or re-opening of these towers.

In commenting on the PPSSCC recommendations, FAA stated that it reviews the operation of all control towers on an annual basis for continued operation, reduced operating hours, or discontinuance. FAA also stated that a program is

under development which will consider contracting-out the operation and maintenance of low activity visual flight rule control towers where appropriate.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO agrees that millions of dollars in savings are possible if FAA applies its uniform criteria to identify economically unjustified control towers and closes such towers. GAO also agrees that savings are possible through staff reductions if operating hours are reduced at some 24-hour control towers.

In arriving at its estimate that $150.9 million could be achieved over a 3-year period by closing towers, the PPSSCC assumed that cost-benefit and site specific analysis would support closing 50 of the 80 towers. PPSSCC also estimated that $14.5 million could be saved over a 3-year period if operating hours at another 56 towers were reduced.

In its June 1981 report, GAO, while concluding that millions of dollars in savings are possible, did not arrive at a precise savings estimate through closing towers or reducing hours of operation because some of the values used in FAA's benefit-cost analysis of facility closures were outdated and not reliable. Moreover, the agency did not perform evaluations to ensure that no adverse impact on safety and little inconvenience to users would occur if operating hours were reduced. For these reasons, plus the fact that some towers referred to by the PPSSCC may still be decommissioned as the result of the air traffic controller's strike, GAO cannot confirm the PPSSCC savings projections.

V. RELEVANT GAO REPORT

GAO/CED-81-100	FAA Misses Opportunities to Discontinue or Reduce Operating Hours of Some Airport Traffic Control Towers (June 1, 1981)

VI. GAO CONTACT

Oliver Krueger 275-6111

TRANS 18: FLIGHT SERVICE STATION (FSS) CONSOLIDATION

I. PPSSCC ISSUE AND SAVINGS

"Can the consolidation of flight service stations (FSS) be accelerated?

"Immediately closing 100 FSSs would produce 3-year net cost savings of $39.6 million."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

FAA Flight Service Stations (FSS) provide pre-flight and in-flight services particularly to general aviation pilots. Additionally, some FSSs make weather observations; issue airport advisories; provide enroute flight advisory service; and give customs and immigration officials information about transborder flights. Some FSSs have communications equipment to relay information to towers and to air route traffic control centers, and for use to provide services in emergencies.

While GAO agrees that the immediate closing of selected flight service stations would result in a reduction of staff positions, such consolidations could be disruptive to FAA's present transition plans, the objectives of which are to provide continuous flight information service nationwide.

As part of the National Airspace System (NAS) plan, FAA plans to consolidate its approximately 300 existing manually operated stations into 61 automated facilities by 1992. Its plans are contingent upon new space becoming available, automated equipment deliveries, and community involvement in FAA's selection process for replacement sites for automated stations. In July 1981, FAA announced a selection process for automated facility locations that calls for soliciting competitive lease offers for facility locations from local communities within a defined area. FAA regional offices are presently evaluating proposals submitted by communities for automated facility locations based on what the facility will cost FAA.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

On December 1, 1984, FAA provided the Congress, as required by the Senate Committee on Appropriations, an update to its planned office and facility consolidations. FAA has been directed by the Committee not to proceed with FSS consolidation until the plan has been reviewed and it receives written approval from the Committee to do so. However, FAA would have to assure the Congress and the

flying public that flight safety and services would not be disrupted.

In commenting on the PPSSCC recommendation, FAA stated that consolidation of the stations is an integral part of the Flight Service Station Reorganization Plan, which provides for the consolidation of existing stations into a national network of 61 automated flight service stations. As of November 5, 1984, FAA had selected sites for 52 of the locations for automated flight service stations. Offers had been received, with the decisions pending, for the remaining nine locations.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO agrees that the immediate closure of 100 flight service stations would result in a reduction of flight service station specialist staff. However, GAO cannot agree with the magnitude of the savings projected and believes it to be too high. The PPSSCC estimates are based on terminating about 300 positions. GAO believes that the PPSSCC estimate does not adequately reflect all the costs associated with the immediate closing of 100 flight service stations. The estimate assumes that space will be available at the consolidated sites to accommodate the equipment and personnel transferred from the closed facilities. It is likely that not every consolidated site will have sufficient space available. Additional relocation costs would also be incurred if the consolidated site is not the location ultimately selected for the location of an automated flight service station. The PPSSCC estimate also does not appear to reflect the communication costs associated with closing 100 stations. GAO recently reviewed FAA's selection criteria for automated flight service stations (GAO/RCED 84-95, March 2, 1984) and pointed out that communications are a significant cost element, generally making up 50 to 80 percent of the total long-term cost estimate of a site.

V. RELEVANT GAO REPORT

GAO/RCED-84-95 The Federal Aviation Administration's Process of Selecting Locations for Automated Flight Service Stations (Mar. 2, 1984)

VI. GAO CONTACT

Oliver Krueger 275-6111

TRANS 21: REFORM OF THE SHIP FINANCING (TITLE XI) PROGRAM

I. PPSSCC ISSUE AND SAVINGS

"Can more prudent management of Maritime Administration's (MarAd) loan guarantee program (Title XI) reduce outlays while allowing MarAd to meet its statutory and policy objectives?"

The PPSSCC "recommendations would better target the issuing of loan guarantees to realize MarAd's stated priorities, reduce MarAd's financial exposure on nonpriority transactions, and raise $8.0 million in Year 1 by increasing the fees charged those seeking and obtaining loan guarantees for a three-year increase of $26.5 million."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO concurs with the recommendation to allocate Title XI ship construction loan guarantees consistent with priorities which specify the type of U.S.-flag vessels, floating dry docks, and oil rigs built in U.S. shipyards. There has been significant recent growth in this loan guarantee program. One billion dollars in guarantees was issued between 1938 to 1970, while $10 billion was issued between 1970 and 1982.

The expansion in guarantees since 1970 was influenced by the Alaskan oil trade and the Merchant Marine Act of 1970 both of which stimulated tanker construction, and by the 1972 amendments to Title XI which stimulated inland tug-barge construction. This latter expansion in loan guarantees for inland waterway vessels is now controversial as noted in the House Merchant Marine and Fisheries Committee Report dated July 10, 1984, which stated that "there are as many as 4,000 excess hopper barges in the trade today." Moreover, the Committee Report stated that "barges, towboats, and supply vessels consumed 64 percent of the total guarantees issued by the Maritime Administration in fiscal year 1982."

Significant use of loan guarantees by an overbuilt segment of the U.S. shipping market demonstrates the need for an assessment of current numbers and capacities of U.S. vessel types in internal and domestic markets and an analysis of market supply and demand conditions for those vessel types in international and domestic markets. The PPSSCC has recommended that such a vessel market assessment be used in MarAd's Title XI loan guarantee decisions, and GAO concurs with this recommendation.

GAO has no basis for an opinion on the merits of the PPSSCC recommendation that MarAd structure financing terms to grant its most attractive terms to the highest-priority

vessels and develop a sliding scale of guarantees for other projects, because GAO has issued no reports on this subject. Neither does GAO have a basis for opinion on the merits of the recommendation (TRANS 21-3) that MarAd increase its investigative and annual guarantee fees, since GAO has issued no reports on this subject.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

Pursuant to current statutory requirements, MarAd should reject applications for loan guarantees for property or projects that would not be economically sound. Legislative action would be necessary to increase guarantee fees and the remaining recommendations may be implemented by executive actions. GAO has not addressed the feasibility issues in the PPSSCC recommendation that MarAd structure its financing terms to grant its most attractive terms to the highest priority vessels and develop a sliding scale of guarantees for other projects. The Department of Transportation is considering the policy changes suggested by the PPSSCC in the above three recommendations (Trans 21-1, 21-2, and 21-3) in revisions being made by DOT to pertinent regulations, but has not yet taken a position on the feasibility or merit of these recommendations.

IV. GAO ANALYSIS OF SAVINGS ESTIMATES

The PPSSCC made no savings estimates for the recommendation that Title XI loan guarantees be allocated consistent with priorities (Trans 21-1). Neither did the PPSSCC estimate any savings for the recommendation that MarAd structure its financing terms to the benefit of "high-priority" vessels (Trans 21-2).

GAO has no basis to comment on the Grace Commission's savings estimates for Trans 21-3 regarding the increase of investigative and annual guarantee fees. The PPSSCC calculated these savings estimates by multiplying new, PPSSCC-recommended investigative and annual guarantee fee rates times PPSSCC estimates for the total dollar volume of Title XI guarantees to be issued. The PPSSCC provided no justification for either its new fee rates or its estimates of Title XI guarantees. Therefore, GAO has no basis for assessing the merit of these savings estimates.

V. RELEVANT GAO REPORT

GAO/CED-77-68 Review of Certain Aspects of the Maritime Administration's Title XI Federal Ship Financing Program (May 16, 1977)

VI. GAO CONTACT

Oliver Krueger 275-6111

PRIV 8: PRIVATIZING SELECTED COAST GUARD SERVICES

I. PPSSCC ISSUE AND SAVINGS

"Are there Coast Guard services that can be privatized, thereby permitting direct savings through cost avoidance and redeployment of existing resources?"

"Implementation of [the PPSSCC] recommendations to transfer to the private sector the operation of Coast Guard services in the areas of search and rescue (non-life threatening), short-range aids to navigation, and commercial vessel safety will result in cost savings and cost avoidance of $380.5 million the first year, $418.5 million the second year, and $460.4 million the third year, for a 3-year total of $1,259.4 million."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO believes there is merit in using private sector assistance for certain Coast Guard services that may permit direct savings through cost avoidance and redistribution of existing resources. GAO believes that contracting out or transferring certain aspects of various Coast Guard programs may prove cost effective and has recommended in an April 1980 report that the Coast Guard consider the private sector performance for certain aspects of some of its programs, including maintenance of its aids to navigation identified by the PPSSCC.

PPSSCC recommendations TRANS-19-2, 3 and 4, and USER-16-1 are related to PRIV-08 recommendations.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The Coast Guard, under existing authority, can transfer to or contract with the private sector for the performance of a particular function on behalf of the Coast Guard. GAO believes the feasibility of implementing the PPSSCC recommendations will be determined by the availability of qualified and cost effective commercial organizations to handle the subject workload.

GAO believes the feasibility of implementing the PPSSCC recommendation concerning the utilization of the private sector towing industry in non life-threatening search and rescue incidents should be assessed after an analysis of the past and projected non life-threatening search and rescue workload, projected assistance from the Coast Guard auxiliary and the availability of qualified companies which would be interested in this activity.

The feasibility of using the private sector to perform maintenance of aids to navigation has already been addressed by the Coast Guard in response to GAO's April 1980 report.

According to Coast Guard officials the Coast Guard agreed with and is in the process of implementing GAO's recommendation. The agency is currently conducting several experiments in contracting out certain Coast Guard programs including the maintenance of aids to navigation.

Further, the feasibility of using the private sector to provide Commercial Vessel Safety (CVS) services of vessel inspection and measurement and to explore expanding the use of the private sector to provide other CVS services has already been demonstrated to a major extent by the Coast Guard agreements with the American Bureau of Shipping to perform vessel inspection services.

In addidition, the Coast Guard official stated that the agency has established a task force responsible for studying a number of programs in order to determine what can or cannot be contracted out or turned over to the private sector or state and local governments.

However, as of December 1, 1984, the Department had not officially responded on the status of these recommendations as requested by OMB and the White House.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC estimated 3 year savings of $1,259.4 million for utilizing the private sector for the operation of Coast Guard services in the area of non-emergency search and rescue, short range aids to navigation, and commercial vessel safety. These savings estimates are based on the results of PPSSCC reviews of the Coast Guard budget, supplemented by interviews with Coast Guard executives to determine the type and quantity of the financial savings possible from utilizing the private sector to perform certain Coast Guard functions. GAO does not have enough information to assess the validity of the PPSSCC estimated savings and the criteria used for these estimates. Therefore, GAO has no basis for an opinion. GAO has not estimated savings resulting from the recommended action.

V. RELEVANT GAO REPORTS

GAO/CED-80-76	The Coast Guard--Limited Resources Curtail Ability to Meet Responsibilities (Apr. 3,1980)
GAO/CED-79-54	How Effective is the Coast Guard in Carrying Out Its Commercial Vessel Safety Responsibilities? (May 25, 1979)
GAO/CED-79-37	Coast Guard Action Needed to Promote Safer Marine Transportation (May 21, 1979)

VI. GAO CONTACT

Oliver Krueger 275-6111

I. PPSSCC ISSUE AND SAVINGS

"Is it possible for NOAA to recover a substantial portion of the Government's investment in civilian land remote sensing satellites as it implements the Administration's plan to cease funding civilian land remote sensing activity by 1988?"

PPSSCC estimated its recommendations for commercial processing and distribution of land remote sensing data could save $497 million over three years.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

Since 1972, the United States has maintained in orbit a series of land sensing satellites called Landsats. Landsat "senses" the earth's surface and sends the data back to earth in a form which can be processed into photographic images or computer-compatible tapes. Landsat data are used around the world to estimate and manage crop production; explore for minerals, including petroleum; make and revise maps; and accomplish other purposes. Landsat data are used in the United States by federal and state agencies, industrial and service businesses, and universities.

According to PPSSCC's two recommendations, 1) the government should cease processing and distributing data and 2) a private firm should buy the "right" from the government to sell Landsat data. By FY 1986, government revenues could reach $320 million, PPSSCC said, but government and private sector estimates of Landsat sales are much lower.

The Department of Commerce is trying to commercialize the entire land remote sensing satellite system, rather than following the PPSSCC's recommendation for the government to commercialize the production and distribution system.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The Land Remote Sensing Commercialization Act of 1984 (P.L. 98-365) gave the Secretary of Commerce authority to enter a contract with a private sector party. The Department of Commerce has chosen to enter a contract for operation of the entire current Landsat system and building a follow-on system. The feasibility of PPSSCC's recommendations is in question since the current contract proposal will not require the private operator to pay the federal

government for anything, including data distribution rights. The federal government will pay for building a follow-on satellite system and U.S government facilities will be used until 1987 for processing and distribution of the data at no cost to the operator. The current commercial proposal requires federal funds, facilities, equipment, and services to assist the private operator. The contract proposal is contrary to the PPSSCC concept that the private operator would pay the government for data rights and share income from data sales and that the government could avoid expenses for processing and distributing Landsat data. In January 1985, the Department of Commerce was negotiating the contract.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

PPSSCC based its savings estimate on the assumption that the Department of Commerce would sell the right to process and distribute the satellite data. The PPSSCC projected savings do not appear realistic because neither the government nor any private sector analyst who has recently appraised Landsat data found it had commercial value as great as the PPSSCC assumed. The Department of Commerce chose to commercialize the entire system with federal financial assistance. None of the acceptable bids proposed that the private operator would pay the government for the right to distribute the data and all bids sought federal funding to operate of an entire satellite system.

V. RELEVANT GAO REPORTS

GAO/RCED-84-93 Effects on Users of Commercializing Landsat and Weather Satellites (Feb. 24, 1984)

GAO/RCED-83-111 Costs and Uses of Remote Sensing Satellites (Mar. 4, 1983)

VI. GAO CONTACT

Herbert McLure 275-4905

COMM 11: NOAA MAPPING, CHARTING AND SURVEYING SERVICE (MCSS)

I. PPSSCC ISSUE AND SAVINGS

"Is it possible for NOAA Mapping, Charting, and Surveying Services (MCSS) to raise prices and cover a larger percentage of its production and distribution costs?"

Price increases could be implemented that would yield increased revenues of $21 million over three years, according to PPSSCC.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

MCSS produces charts of the nation's coastal regions for use by mariners and aeronautical charts for commercial and general aviation. The products are sold to government and non-government users. Current chart prices for the public range from about $2 to $6. Current prices are designed to recover printing and distribution costs, about one third of the full cost. Other costs are data collection and overhead. PPSSCC wanted to increase chart prices 20 to 30 percent per year for 6 years until all costs are recovered. PPSSCC did not indicate how much a chart would eventually cost.

While GAO has not specificially explored the feasibility of increased user charges for MCSS products, it has in general supported expanding the application of user charges by federal agencies.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

A precondition for increasing revenues would be, as PPSSCC recommended, to obtain legislation providing MCSS products with copyright protection. This would aid the federal sale of nautical charts which is limited by the availability of commercially competitive products.

The Department of Commerce has not attempted to obtain copyright protection, but it tried to get authority to increase prices. Its FY 1985 budget proposal contained price increases of 50 percent over three years. However, the Congressional authorization for FY 1985 did not allow for the proposed increase. The Department of Commerce budget submission for FY 1986 seeks to increase NOAA chart prices.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

PPSSCC assumed a price increase of 25 per cent per year. This is a higher increase than the Department of Commerce proposed in its FY 1985 budget request. PPSSCC recognized that increasing prices would reduce sales volume. To adjust its savings estimate to reflect reduced sales volume, PPSSCC assumed that increased revenues would be halved. GAO's prior work has not been directed at evaluating user charges in this area, and GAO has no basis to determine the validity of the PPSSCC's estimates and assumptions. GAO noted, however, that the PPSSCC estimate is based on the assumption that the Congress pass legislation giving MCSS full copyright protection against lower pricing by private competition. Congress has not passed such legislation.

V. RELEVANT GAO REPORTS

GAO/PAD-80-25 The Congress Should Consider Exploring Opportunities to Expand and Improve User Charges by Federal Agencies (Mar. 28, 1980)

VI. GAO CONTACT

Herbert McLure 275-4905

CHAPTER 6

COMMERCE AND BANKING PROGRAMS

The PPSSCC issues dealing with commerce and banking range from streamling the banking industry regulatory structure to transferring certain of SBA's loan responsibilities to the private sector, and to reforming certain Postal Service administrative operations. These issues could affect how financial institutions are regulated, the level of mail service given to postal patrons, and the amount of credit available to small business persons.

GAO evaluated 71 PPSSCC issues in these areas. GAO found overall merit in 52 of these issues, questioned the merits of 10, and did not take a position on 9. The PPSSCC attached savings estimates totalling about $4.5 billion to these issues but GAO thinks the individual issue estimates making up this total were frequently too high. Of the 71 issues, 29 will require legislative action by Congress to fully implement.

BANK 27 AND 29: RATIONALIZATION OF BANKING REGULATORY AGENCIES AND TRANSFER OF FRS REGULATORY FUNCTIONS TO OCC

I. PPSSCC ISSUE AND SAVINGS

"Can a more functional and cost-effective approach for regulation of the banking industry be accomplished?"

"Can the bank examination and supervisory functions of the Federal Reserve System (FRS) be absorbed by the Office of the Comptroller of the Currency (OCC)?"

In Bank 27 the PPSSCC estimated that consolidation of the three federal bank regulatory agencies into one agency would result in net cost savings totaling $57.6 million over a 3-year period. In Bank 29 the PPSSCC estimated that savings of approximately $7.2 million would be achieved over a 3-year period if the bank examination and supervision functions of the FRS were merged into the OCC.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC made several separate recommendations that dealt with the structure for regulating financial institutions. In Bank 27, the PPSSCC recommended that a new agency, entitled the Federal Banking Commission, be established which would encompass the bank regulation and insurance functions that are currently conducted by the OCC, the FRS, and the Federal Deposit Insurance Corporation (FDIC). In the event that Bank 27 was not adopted, the PPSSCC recommended, in Bank 29, that the Federal Reserve's examination and supervision functions be merged into the OCC.

There have been many studies along with proposals to restructure the federal supervision of depository institutions, including a study completed in 1984 by the Vice-President's Task Group on the Regulation of Financial Services entitled Blueprint for Reform. The principal arguments for and against consolidating the regulatory system are widely known and have been cited by congressional committees, trade associations, government advisory groups, academicians, and bank regulators. Proponents of consolidation argue that a consolidated agency would avoid the problems related to the division of responsibility in such areas as failing banks or bank holding companies. Opponents of consolidation express

concerns about excessive centralization of power in one agency and the effect that this centralization would have on the federal and state banking systems.

GAO has issued two reports to Congress and one study on matters that relate to the regulatory structure. In addition, GAO has one ongoing assignment that looks at the implications of regulation by function rather than industry, and plans to undertake additional work on the subject. While GAO believes that the federal regulatory structure should be studied and that alternative structures should be explored, GAO does not believe that the PPSSCC study demonstrates that its reorganizational proosals are the best solution to the issue. In view of the lack of success of past efforts to consolidate the examination and supervision functions of the bank regulatory agencies, GAO believes that any restructuring proposal, if it is to receive serious congressional consideration, must clearly demonstrate that the new system will provide more effective supervision.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that a statutory change would be necessary to restructure the bank regulatory system. The Vice-President's Task Group on the Regulation of Financial Services transmitted its report to the President on September 24, 1984, with its recommendations for regulatory reform. While it is possible that the 99th Congress will address the question of regulatory structure, including the proposals of the Vice-President's Task Group and the PPSSCC, some regulators believe that other banking issues have a higher priority which may preclude consideration of the regulatory structure issue.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The net savings shown on Bank 27 totals $57.6 million over a 3-year period. This amount is attributed to savings in administration, supervision, and overhead. The PPSSCC report does not, however, provide any details on how these savings were computed. GAO therefore has no basis for evaluating the estimated savings. Nevertheless, it is important to remember that Congress does not appropriate funds to the bank regulatory agencies but rather their operating costs are paid for by the banks

under their jurisdiction. Therefore, any savings would accrue to the industry and would not reduce taxpayer funding of government operations.

For Bank 29, the PPSSCC estimated savings of $7.2 million over 3 years. As in Bank 27, GAO has no basis for an opinion as to whether these estimated savings are realistic.

V. RELEVANT GAO REPORTS

GAO/GGD-84-4	Federal Financial Institutions Examination Council Has Made Limited Progress Toward Accomplishing Its Mission (Feb. 3, 1984)
GAO/GGD-81-21	The Federal Structure for Examining Financial Institutions Can Be Improved (Apr. 24, 1981)
GAO/OCG-77-21	The Debate on the Structure of Federal Banks (Apr. 14, 1977)

VI. GAO CONTACT

Craig Simmons 275-8678

BANK 28: A MORE EFFICIENT FEDERAL REGULATORY EXAMINATION PROCESS

I. PPSSCC ISSUE AND SAVINGS

"Can the use of the private sector, increased reliance on the work of the states, and modifications in the examination process and training improve the efficiency and reduce the cost of the federal regulatory examinations?"

"A 10 percent reduction in annual examination costs is a reasonable expectation within the next three years. This reduction would be approximately $24.3 million."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC believes that Congress and the President should mandate that the federal financial institution regulators reduce examination expenditures 3-1/3 percent per year until a 10-percent reduction is achieved. The PPSSCC believes this reduction can be accomplished through six savings actions which include requiring Certified Public Accountant (CPA) audits and accrual accounting for banks and savings and loan associations, as well as credit unions with assets in excess of $2 million; requiring engagement letters for the above audits; expanding public disclosure requirements; increasing the use of state examinations; improving off-site surveillance[1] through computer-based monitoring systems to reduce the frequency and depth of examinations; and reducing individual agency training expenditures through common training courses.

GAO is generally supportive of actions similar to those suggested by the PPSSCC to improve the economy and efficiency of federal regulators' examination activities, provided that these actions do not impair the ability of the federal regulators to carry out their supervisory responsibilities. There are, however, several matters not addressed in the PPSSCC report which may preclude any significant reduction in the federal cost to examine financial institutions. GAO believes that, in view of the large number of failed and problem institutions that exist, any change in the regulatory scheme should be based

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[1]Banks submit quarterly financial data to the regulators who in turn convert this information to computer records including various financial ratios. The regulators monitor this data to flag unusual patterns or changes and to set priorities for on-site examinations.

on the expectation that the change will improve the quality of supervision.

Another concern involves the PPSSCC recommendation that some work now performed by federal regulators be performed by CPAs. While GAO has not studied the concept of regulators making greater use of CPA audits, it is not clear from the PPSSCC report that CPAs can do this work better or cheaper than federal regulators. In fact, this subject of CPA audits and engagement letters has been debated over the years.

GAO has not reviewed the PPSSCC suggestion to make use of accrual accounting and expanded disclosure. GAO did note that many banks already are required to report their financial data to their federal regulator on an accrual basis and all banks will be so required by 1985. It is not clear from the PPSSCC report what type of public disclosure is contemplated or how cost savings would accrue.

Some of the PPSSCC recommended actions are similar to those made in prior GAO reports on which some regulators have taken action. It is not clear to what extent additional actions should be taken to reduce examination costs. GAO has studied and generally agrees with increasing the use of state examinations, improving off-site surveillance, and utilizing common training programs. In a 1981 report, GAO recommended that federal regulators develop a governmentwide policy to monitor the quality of state examinations and accept those that are competently performed. In a 1982 report, GAO recommended that the banking agencies formally assess the costs and benefits of their off-site surveillance systems to accelerate the integration of surveillance with on-site examinations. Further, in a 1977 report, GAO supported the concept of establishing common interagency examination courses. However, in a 1984 report, GAO concluded that until financial regulators can agree on common examination principles and a more standard examination format, it will be difficult to combine all examiner training.

GAO disagrees with the PPSSCC recommendation to mandate a reduction of 10 percent in the federal agencies' examination costs. Such action seems arbitrary and not based on measurable savings that could be achieved by taking the specific actions suggested by the PPSSCC.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that legislative action would be necessary to mandate a 10-percent reduction of expenditures of the five federal regulators. GAO does not support such action. No statutory action is required to implement the six individual savings actions.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

In assessing the PPSSCC savings estimate, it should be remembered that the cost of federal supervision and examination is provided by the respective financial institutions (for example, banks) that are regulated rather than by funds appropriated by Congress. Therefore, ultimately any savings would be realized by these financial institutions and not by the federal treasury. In addition, the PPSSCC savings estimates are based on assumptions that are not necessarily appropriate. For example, no justification or explanation is given showing how the 10-percent reduction of expenses is achieved by implementing the individual savings actions. Moreover, while the banks may save a portion of their federal examination costs, this savings may be offset by CPA fees. Finally, additional cost savings could not accrue from increased reliance on state examinations for the Office of the Comptroller of the Currency (OCC) and the National Credit Union Administration (NCUA), since states have no jurisdiction over the banks examined by OCC, and NCUA already relies almost extensively on state examinations. The PPSSCC estimates, however, inappropriately included a savings by shifting examination costs from these two federal agencies to state authorities.

V. RELEVANT GAO REPORTS

GAO/GGD-84-4	Federal Financial Institutions Examination Council Has Made Limited Progress Toward Accomplishing Its Mission (Feb. 3, 1984)
GAO/GGD-82-21	Despite Recent Improvements, Bank Supervision Could Be More Effective and Less Burdensome (Feb. 26, 1982)
GAO/GGD-81-12	Federal Examinations of Financial Institutions: Issues That Need to Be Resolved (Jan. 6, 1981)

VI. GAO CONTACT

Craig Simmons 275-8678

BANK 30: DISSOLVE THE FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

I. PPSSCC ISSUE AND SAVINGS

Should the Federal Financial Institutions Examination Council (the Council) be dissolved upon completion of its recommendations pertaining to issues currently under study?

The PPSSCC estimated that dissolving the Council would save the regulatory agencies approximately $2.1 million annually and $6.9 million over 3 years.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The Federal Financial Institutions Examination Council was established by law in March 1979 to prescribe uniform principles, standards, and report forms for the federal examination of financial institutions. The Council's other responsibilities include making recommendations to promote uniformity in the supervision of financial institutions, developing uniform reporting systems for federally supervised financial institutions, and conducting schools for examiners employed by the five member agencies.

GAO's 1984 report on the Council showed that it had made only limited progress toward accomplishing these objectives. The report does not support the findings of the PPSSCC that the Council has completed, or nearly completed, its mission of accomplishing these objectives. Unless Congress decides to consolidate the federal regulatory agencies, GAO believes that some form of structured coordination is needed for the agencies to deal with common problems and to promote uniform supervision. GAO also believes that the Council could help facilitate restructuring the regulatory systems in the event that Congress authorizes some change in the present system.

The PPSSCC states that the Council would no longer be necessary if its recommendation to restructure the regulatory system by consolidating the bank regulators into one Federal Bank Commission is implemented. Such a concept was studied by Vice-President Bush's Task Group on the Regulation of Financial Services. However, the compromises reached by the task force left the three bank regulators intact but with new responsibilities. The

continuing existence of three regulators (even though only two agencies would have extensive examiner forces) suggests that some type of coordinating mechanism, such as the Council, would still be necessary.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

Amendments to Public Laws 95-630 and 96-399 would be necessary to dissolve the Council. It is unlikely that any action will be taken to dissolve it until Congress addresses the issues of restructuring the current system of regulating financial institutions. No legislative action has been taken.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC savings estimates are based on assumptions that are not valid. PPSSCC's analysis of the Council's fiscal year 1981 budget did not consider the lodging expenses of examiners, which would remain a cost of examiner education. Further, the survey did not consider that a portion of the Council's direct operating expenses would most likely have to be absorbed by the agency (Office of the Comptroller of the Currency) assuming the training responsibility. Thus, only a portion of the $590,000 in direct operating expenses would be saved by abolishing the Council instead of the reported $2.1 million savings for fiscal year 1981.

It is important to remember that the Council's budget is funded by the five financial institution regulators. These regulators' budgets are based on nonappropriated funds; that is, they assess their respective industries to cover supervisory costs. Thus, any savings from abolishing the Council will not affect taxpayer funding of government operations.

V. RELEVANT GAO REPORTS

GAO/GGD-84-4 Federal Financial Institutions Examination Council Has Made Limited Progress Toward Accomplishing Its Mission (Feb. 3, 1984)

VI. GAO CONTACT

Craig Simmons 275-8678

BANK 19: USER FEES FOR AGENCY BORROWINGS

I. PPSSCC ISSUE AND SAVINGS

"Should the Federal Home Loan Bank Board (FHLBB) System be subject to user fees on its use of issues of obligations with agency status?"

According to the PPSSCC, savings potential over 3 years, if these recommendations were adopted, is $296.7 million.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The district banks of the FHLBB System raise funds by borrowing from the public at agency rates, which are higher than those of U.S. Treasury obligations but, in general, significantly lower than private offerings of similar quality. The PPSSCC recommends that the Treasury charge the FHLBB System a user fee for the use of agency status, to be increased each year until the cost of the funds to the System approximates that of the private market. GAO has not taken a position on the PPSSCC recommendation.

If the PPSSCC recommendation were implemented, the FHLBB System's cost of borrowing would increase. This increase would provide a greater incentive for the FHLBB System to cut other operating costs. More importantly, the PPSSCC recommendation would effectively phase out the subsidized borrowing by savings and loan associations (S&Ls) from the FHLBB System that now represent about 7 percent of the S&L industry's assets.

Traditionally, borrowing from the FHLBB System has helped finance S&L housing activities in addition to helping S&Ls meet liquidity demands. In view of the changed powers of thrift institutions, it would make sense to reexamine the role of the FHLBB System, including the favored access to funds represented by borrowing from the FHLBB System.

The FHLBB views borrowing from the FHLBB System as an aid to housing. While the PPSSCC recognizes the relevance of housing policy issues, its recommendation reflects a judgment that a subsidy for this particular housing-related activity is no longer appropriate.

GAO has not done a study related to the PPSSCC recommendation. Justification for continued favored treatment

for some of the federally sponsored housing finance agencies can legitimately be questioned on the grounds of whether they are the most efficient way to provide subsidies to those who most need them.

The FHLBB also argues that, in view of the somewhat precarious position of the S&L industry, it would not make sense to change financing arrangements at this time. It is GAO's understanding that in meetings of the PPSSCC members and White House staff, the PPSSCC agreed at this time to go along with the FHLBB's argument for retaining existing arrangements. One problem with the recommendation is that the FHLBB System-favored borrowing rates result from the market's perception that the federal government will back the FHLBB System, not from official government action to provide a subsidized rate. (By law the securities are, however, exempt from state taxes.) There would, therefore, be technical problems in deciding exactly what user fee to charge, since the differential between what the FHLBB System now pays, and what it would pay without agency status, changes according to market conditions.

The PPSSCC report suggests that FHLBB borrowings increase Treasury's cost of financing the public debt. There is a measure of plausibility to the contention that increased agency borrowing does raise Treasury's cost of borrowing, but the state of the art does not allow this effect to be measured very precisely.

GAO assumes that the PPSSCC's recommendation--to limit district bank investments to U.S. Treasury obligations--refers to investing excess FHLBB System borrowings that are not immediately needed to finance S&L housing activities. If this is the case, it is necessary to examine how these excess funds are currently invested before GAO can comment on the utility of the recommendation. For example, in analyzing how Farm Credit borrowings were invested, GAO found that all investments were for cash management purposes and none for arbitrage. In that case, limiting investments to only U.S. Treasury obligations would unduly constrain the program's cash management practices. (See Bank 39.)

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that legislation would be required to implement this recommendation. No similar recommendation regarding the FHLBB System has been made by GAO and no legislative or executive implementation action

has been taken on the recommendation. However, the FHLBB opposes the recommendation, stating that the savings and loan industry is too fragile to impose a user fee. OMB and Office of Policy Development agree that the recommendation is programmatically infeasible and undesirable. The PPSSCC conceded and the recommendation has been tabled indefinitely.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

A savings estimate of $296.7 million over 3 years was provided by the PPSSCC. GAO has no basis for an opinion as to whether the savings estimate is realistic.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

Craig Simmons 275-8678

BANK 21: COLLECTION OF PREMIUMS, ASSESSMENTS, AND FEES

I. PPSSCC ISSUE AND SAVINGS

Can the Federal Home Loan Bank Board (FHLBB) and the Federal Savings and Loan Insurance Corporation (FSLIC) collect assessments, fees, and premiums by debiting members' accounts?

The PPSSCC estimates that the Treasury would save $10.9 million over 3 years.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The FHLBB collects a number of fees and assessments from member institutions. These collections are currently handled by billing the members, who in turn pay with checks that are processed manually. The small volume of checks received and the irregular pattern of receipt has made automating the process difficult and not cost-effective. However, all member institutions maintain accounts at 1 of the 12 FHL Banks. If the FHLBB could collect premiums and assessments by debiting these accounts and by making internal funds transfers, the PPSSCC contended that the savings noted above would occur.

GAO agrees that the issue is germane and that the recommendations make sense. The current method of using checks is more costly than direct debiting. FHLBB officials also agreed with this recommendation.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC conclusion that the agency has the authority to implement this recommendation and that it is feasible. Its feasibility is evident because it is now being implemented; plans for direct debiting were included in the agency's 1984 budget.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

Though GAO has done no work on this matter, both the FHLBB and the Office of Management and Budget concur with the savings estimate.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

Craig Simmons 275-8678

BANK 39: NEUTRALIZING AGENCY STATUS

I. PPSSCC ISSUE AND SAVINGS

"How can the advantages of agency status for the Farm Credit System (FCS) be moderated without jeopardizing the performance of its mission?"

The PPSSCC estimated new revenues could total $223.2 million over 3 years.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC recommended that the FCS pay a user fee on its outstanding debt, that the FCS invest only in U.S. government securities, and that Federal Land Banks and the Federal Land Bank Associations limit their loans. Each of these recommendations is discussed below.

Congress provided the FCS with competitive advantages as part of an overall program to ensure its success. Implementing the PPSSCC recommendation that Congress authorize an annually increasing fee, calculated in basis points (.01 percent), on outstanding FCS debt payable to the Treasury could remove one of the FCS's competitive advantages--perhaps its most important advantage. The fee would compensate the government for allowing the FCS to retain its agency status. The recommendation is designed to establish a fee that will become so onerous that the FCS will eventually be forced to seek legislation that would remove its agency status. This fee would result in higher credit costs to farmers, fishermen, and other system borrowers.

GAO favors instituting user fees where appropriate. Office of Management and Budget (OMB) Circular No. A-25, which GAO supports, limits user fees to the cost of providing the government service--not the value received by the beneficiary. Clearly, FCS's agency status has value, but it is not clear whether the status costs the government anything. Since there may be no government cost involved, a fee may not be appropriate. OMB Circular No. A-25 states that as a general policy, no fees should be charged for services when the identification of the ultimate beneficiary is obscure and the service can be primarily considered as broadly benefiting the general public. The circular also states that exemptions may be made if the beneficiary is engaged in a nonprofit activity

designed for the public welfare. Without further research, GAO cannot say that the FCS would not qualify for one or both exemptions. If the FCS qualified for either exemption, a user fee would not be appropriate under the A-25 criteia.

The PPSSCC recommends that Congress mandate that organizations having agency status be allowed to invest only in government securities other than investments pursuant to their mission. This recommendation would marginally affect FCS's costs. While association with the government allows FCS to sell bonds on the open market at favorable rates, its borrowing rate is higher than Treasury's on issues of comparable maturity. Furthermore, most FCS investments in non-U.S. securities are in overnight federal funds. Given the nature of these funds, it would appear that they are used solely for liquidity and cash management purposes. While the argument that FCS's agency status should warrant investment in only Treasury securities has some appeal, GAO believes it is unduly restrictive since there is no evidence that the FCS is using excess balances to seek profitable investment opportunities.

The PPSSCC also recommends that Congress restrict Federal Land Banks loans not related to land acquisition or improvement to 10 percent of the land's value. The objectives of this recommendation are to limit using land to collateralize loans for speculative purposes and to prevent farmers from using their land to obtain loans for personal needs. One of the purposes of establishing the FCS was to provide needed financing to farmers because other lending institutions were reluctant to provide financing using farm land as collateral. The financial options farmers currently have would be reduced by this recommendation. The stated objective of the FCS is to improve the income and well-being of farmers and ranchers. It is not clear from the PPSSCC report that the loans (that is, education, travel, and car) the recommendation would preclude are, in fact, inconsistent with the objectives of the FCS.

As long as the FCS has the responsibility of making a flexible flow of credit available to improve the income and well-being of the Nation's farmers, fishermen, and ranchers by furnishing them with sound, adequate, and constructive credit, the recommendations concerning this issue are questionable.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that these recommendations could only be implemented through legislation. The FCS is against all PPSSCC recommendations and will strongly defend its position against any proposed legislation. OMB plans to seek legislation allowing a user fee, but as of December 1984 no decision had been made on the amount of the fee. This decision may be contrasted with OMB's decision not to adopt the PPSSCC's recommendation to collect user fees from the Federal Home Loan Bank Board because of the weakened condition of the thrift industry.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The 3-year additional revenue projected by the PPSSCC is correct based on $74.4 billion in outstanding loans over a 3-year period at a fee of 5 basis points the first year, 10 basis points the next, and 15 basis points the next.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

Craig Simmons 275-8678

ASSET 7: BANK ACCOUNT MONITORING AND CONTROLS

I. PPSSCC ISSUE AND SAVINGS

"Should Treasury, through the Bureau of Government Financial Operations (BGFO), monitor the use of government banking and account management in order to manage interest on funds more aggressively?

Accelerated revenues/receipts of $1,016 million and reduced interest costs/outlays of $337 million have been identified for a total budget impact of $1,353 million."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

This issue is aimed primarily at improving certain aspects of the government's cash management, including some matters that GAO has addressed in the past. For example, one recommendation would have Treasury eliminate the practice of placing noninterest-bearing deposits (known as compensating balances) with commercial banks in return for banking services. PPSSCC recommends that such arrangements should be competitively bid, wherever possible, with the banks being compensated on a service fee basis. GAO believes that because the compensating balances are not part of Treasury's budget, there is a reduced incentive to minimize banking costs. Paying for banking services on a fee basis with complete disclosure of the associated costs in the budget could help to overcome this problem.

PPSSCC also recognized the need for improving the management of certain loan funds by the Farmers Home Administration (FmHA) in supervised bank accounts, and recommended that such funds be invested and interest collected. However, in an April 27, 1984, letter to the FmHA Administrator, GAO suggested that FmHA use alternate disbursing systems, such as checks/drafts-paid letters of credit, to disburse funds. Using this technique, recipients of federal financing do not receive funds until needed for disbursement. This helps to eliminate effectively the problems of idle cash and interest losses that result when temporarily unneeded funds are placed in noninterest-bearing supervised bank accounts.

Finally, PPSSCC recommended that the Small Business Administration (SBA) require that Small Business Investment Companies (SBICs), among other things, draw down funds against an investment line of credit only as needed for immediate program outlays. PPSSCC reported that SBICs used funding supplied by SBA to provide equity and/or long-term financing for small business. PPSSCC found that this program had resulted in $275 million of idle funds. GAO agrees with the PPSSCC suggestion that the funds should be drawn down only as needed.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO believes that Treasury and SBA have the authority to implement the recommendations directed to them, as PPSSCC indicates, with congressional approval of any necessary funding. For example, funds would be needed to pay the banks' service fees if that recommendation were adopted. Treasury and SBA have indicated that the practicality of some of the PPSSCC's specific recommendations may be questionable. Treasury officials stated that Treasury does not endorse the service fee basis for paying banking services. There is some concern that the government's banking operations could be disrupted if the necessary funding was delayed in the budget process.

SBA officials stated that the Small Business Investment Company (SBIC) regulations were revised to strengthen SBA control over SBIC liquidity management. However, after considering letters of credit as a means of controlling disbursements, the SBA officials found the alternative not to be cost-effective.

In regard to the PPSSCC recommendation on FmHA using interest-bearing bank accounts for loan funds, a FmHA official stated that such accounts are now being used whenever possible. However, the interest proceeds are credited to the loan recipient. The official stated that because the recipient must pay interest on any funds placed in the bank account as part of the loan agreement, the recipient is entitled to any interest earnings generated from those funds. Therefore, FmHA's position that it does not have the authority to retain the interest earnings on the government's behalf appears reasonable.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO does not have adequate information to comment on the accuracy of the entire savings estimate for this issue. However, GAO does not believe the three year savings of $193 million attributed to having FmHA instruct its field loan offices to invest supervised bank account funds and collect the interest can be achieved. As mentioned earlier, when the loan recipient pays the government interest on the funds in the supervised bank account, in FmHA's view, the loan recipient and not the government is entitled to any interest that may be earned on the funds. Although there is an opportunity for savings in this area, GAO believes savings would result through alternative methods, as we have suggested, rather than through this recommendation. Furthermore, these claimed savings appear to duplicate savings claimed under another issue. AG-6 states: "The Administrator of FmHA should direct all county supervisors and

district directors to use interest-bearing SBACs, or otherwise invest loan proceeds awaiting disbursement, to the maximum extent possible." Although duplicate savings were not to have been included in total PPSSCC savings, GAO is uncertain if the claimed savings related to this issue have been eliminated. Revenue of $118.2 million is attributed to adoption of that recommendation, which is apparently the same as recommendation ASSET 7-2 included under this issue.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

John F. Simonette 275-9490

TREAS 17: USE OF OFFSET PRINTING FOR CURRENCY

I. PPSSCC ISSUE AND SAVINGS

Can the Bureau of Engraving and Printing (BEP) produce one dollar notes at a lower cost if offset printing rather than intaglio printing is used for the back?

Savings were not claimed.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC did not initiate study of this issue. In June 1983, Senator Garn requested that GAO review the advisability of printing the backs of $1 notes by other than the intaglio (i.e., engraving) method and the capacity of the Bureau of Engraving and Printing to meet the nation's currency needs, notwithstanding the printing method. The Bureau had proposed using a different method in order to save money and take advantage of higher speed technologies. This was not the first time the Bureau had made this proposal. GAO concluded that the proposal was probably worth trying, but did not make a recommendation to that effect. The PPSSCC did, however, recommend that the Bureau use a different method of printing the backs of dollar notes.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

Both the PPSSCC and GAO agree that legislation is needed to enact the proposal. S.1120, the enabling legislation, was the subject of hearings of the Senate Banking Committee on June 22, 1983. The legislation has been strongly opposed by the Plate Printers Union. As of October 16, 1984, the bill had not been reported out of committee. GAO has not been informed whether the legislation will be reintroduced in the next Congress.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC, as was its general policy, made no estimate of savings because the Treasury Department, which initiated the proposal, had already done so. GAO examined the Treasury estimate, which was for annual savings in the $5 to $6.1 million range, depending on the volume of currency produced. The estimate appeared reasonable, although GAO has not assessed in detail the validity of several assumptions underlying the estimate.

V. RELEVANT GAO REPORTS

GAO/GGD-83-98	S.1120: An Administration Proposal to Print the Backs of One Dollar Notes by Other Than the Intaglio Method (Aug. 15, 1983)

VI. GAO CONTACT

Craig Simmons 275-8678

BANK 32: RISK-RELATED INSURANCE PREMIUM: FDIC, FSLIC, AND NCUSIF

I. PPSSCC ISSUE AND SAVINGS

"Should the deposit insurance agencies charge member institutions insurance premiums in proportion to the riskiness of the institutions' operations?"

"No direct cost savings would be generated by this recommendation; however, the potential for a drain on the Treasury as a result of failure of any of the insurance funds would be reduced."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC recommends that the Federal Deposit Insurance Corporation (FDIC), the Federal Savings and Loan Insurance Corporation (FSLIC), and the National Credit Union Share Insurance Fund (NCUSIF) adopt a variable-risk premium system. GAO has no position on the PPSSCC recommendation.

In principle, the recommendation has appeal because commercial arrangements for most other types of insurance vary premiums, so that those who create the biggest insurance risks also pay the highest premiums. One of the possible desired effects of a risk-based premium system is that insured institutions would take action to reduce their risks in order to reduce their insurance premiums.

GAO's analysis to date suggests, however, that the issues surrounding variable rate deposit insurance are more complex than the PPSSCC's discussion indicates. Deposit insurance is an integral part of the entire regulatory environment, intended to maintain the safety and soundness of the financial system. Unanswered questions include: how risk in financial institutions can be identified and priced; what the roles and responsibilities of the various federal agencies that regulate financial institutions are; how effective alternative variable rate insurance arrangements would actually be in inducing banks to reduce risks; and how a variable rate system would affect both insurance fund finances and the relative cost of insurance for large and small banks. It is not at all clear that a suitable, objective basis for levying variable rates can be established, or that it is politically feasible to vary insurance premiums enough to significantly affect risk-taking by financial institutions. The most pressing

problem with deposit insurance financing is making certain that the deposit insurance agencies and the Federal Reserve System have the resources needed to liquidate or assist the largest commercial and savings banks.

Officials from two of the federal insurance funds--FDIC and FSLIC--state that their agencies favor taking immediate, although limited, steps toward a variable rate system. FDIC has proposed adjusting deposit insurance premium rebates to member institutions that occur in most years, so that the rebate depends on the classification of banks into three risk classes, according to the amount of bank capital and their exposure to interest rate risk. FSLIC has requested the authority to impose additional insurance assessments on associations that engaged in unauthorized activities or violated limitations on use of assets.

An official from the National Credit Union Administration (NCUA) stated that the recommendation to adopt variable rates for credit unions is impractical because there would be no way to enforce it. Credit unions do not have equity capital. In addition, a high percentage of credit unions are tied closely to a single employer; therefore, if a variable rate were required, there would be no capital base to evaluate, and the employing organization would have to be rated in order to determine which rate to apply.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that implementing this recommendation would require legislation. No similar recommendation has been made by GAO and no legislative action has been taken on the recommendation. It is GAO's understanding that, as with many other matters that affect the regulation of federal financial institutions, the PPSSCC has deferred on this issue to the Vice President's task group on Regulation of Financial Services. FSLIC and FDIC officials agree with part of the recommendation and have proposed legislation accordingly. NCUA does not support the recommendation, noting that their insurance funds operate differently and the risks they face are not similar. No congressional action has been taken to date.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

No savings estimate was provided by the PPSSCC.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

Craig Simmons 275-8678

I. PPSSCC ISSUE AND SAVINGS

"Are the reserves of the federal deposit insurance agencies (the Federal Deposit Insurance Corporation (FDIC), the Federal Savings and Loan Insurance Corporation (FSLIC), and the National Credit Union Share Insurance Fund (NCUSIF)) adequate to meet the demands of potential claims without recourse to the Federal budget?"

"If reserve levels are inadequate, a severe drain on the U.S. Treasury could occur."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC made several recommendations regarding the issue, including the undertaking of a study to determine, first, if insurance funds should be consolidated, and second, if Congress should mandate that the funds be self-sustaining by increasing the agencies' authority to charge premiums that are consistent with attaining an adequate level of reserves. The PPSSCC also recommended that Congress act to permit all institutions to obtain supplemental deposit insurance from private sector insurers and to permit private sector insurance to substitute for federal insurance. GAO has no position on the PPSSCC recommendations.

As cited in the PPSSCC report, consolidation of the funds would take place in conjunction with a general consolidation of regulatory functions to form a national banking and thrift agency. The general consolidation is discussed in Bank 27, 28, and 30.

One of the current arguments for consolidation is the growing similarity in the authority and operations of depository institutions. Although a process of homogeneity is underway, it is not clear that most institutions will end up alike. Non-profit, cooperative credit unions are very different from commercial banks, and there seem to be renewed efforts in the savings and loan (S&L) industry to retain sufficient focus on housing finance to distinguish this industry from commercial banks. Hence, consolidating the insurance funds on the basis of institutions' similarity may be premature.

It is likely that private sector deposit insurance for banks and S&L's, to the extent it would be available, would be much more costly than federal insurance and is therefore

not likely to serve as a practical alternative. An offsetting factor that might tend to lower private insurance costs for some banks or S&Ls would be private insurance firms' ability to provide insurance only to the least risky firms. If this possibility occurred, it could increase insurance costs for firms that stay with federal funds.

An additional problem concerns the capacity of the insurance industry to provide insurance to the largest banks. FDIC's study of private deposit insurance arrangements points to problems with the ability of private insurance firms to back the deposits of very large banks whose assets are greater than those of the insurance firms themselves. Questions about the ability of private insurers to honor their commitments could undermine the confidence in financial institutions that deposit insurance was intended to provide.

GAO has been informed that in meetings with White House Staff, the PPSSCC representatives have deferred to the Task Group on the Regulation of Financial Services, chaired by the Vice President. The Vice President's task force has developed a proposal for consolidating commercial bank regulatory functions, but it has not supported combining FHLBB and NCUA functions with those for commercial banks. It is also GAO's understanding that the task force's final recommendation will not support consolidation of the insurance funds at this time, but that the task force might indicate that this issue could be considered at a later date.

While GAO has not addressed the issue of reserves, GAO agrees that the ratio of funds to insured assets should reflect as nearly as possible the risks involved. GAO also supports the principle that the cost of the risks should be paid by the insured institutions, not the general public. But the PPSSCC has not demonstrated that there is a problem. Even if reserves are adequate, the payment of claims will always result in a cash drain on the U.S. Treasury, since the insurance fund must redeem U.S. Treasury obligations from the Treasury in order to make cash payouts.

To date, all insurance fund losses have been paid for out of the industry-financed insurance funds. The revenues generated by the current assessment system for FDIC and FSLIC, the two largest funds, have been able to maintain the level of reserves at about 1.0 to 1.2 percent of insured deposits. The PPSSCC has no evidence that the funds are

actually under-financed, and agency repesentatives state that the present system seems adequate, given the lack of definitive criteria for establishing fund reserves. FHLBB officials also point out that the industry's condition make it difficult to raise premiums at the present time.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that the implementation authority for consolidating the insurance funds lies with Congress. No similar recommendation has been made by GAO and no legislative or executive implementation action has been taken on the recommendation. An FDIC official stated that FDIC supports the recommendation for combining the funds. He said it was inevitable that the funds should be combined and that this action would lead to a stronger and safer insurance system. Both FHLBB and NCUA oppose the recommendation. As noted above, the Vice Presidents' task group on Regulation of Financial Services is not expected to favor consolidation at this time.

GAO has reservations concerning the PPSSCC position that the authority for FDIC and FSLIC to change their insured assets-to-fund ratio lies with the executive branch, since these insurance funds are comprised of assessments determined according to statutory formula. No recommendation to change the ratios has been made by GAO and no agency action has been taken on the recommendation.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

No savings estimate was provided by the PPSSCC.

V. RELEVANT GAO REPORTS

GAO/GGD-84-3 The FSLIC Insurance Fund--Recent Management and Outlook for the Future (Oct. 14, 1983)

VI. GAO CONTACT

Craig Simmons 275-8678

BANK 24: NCUA CENTRAL LIQUIDITY FACILITY

I. PPSSCC ISSUE AND SAVINGS

Should credit unions have their own "central bank"--the National Credit Union Administration's (NCUA's) Central Liquidity Facility (CLF)--since they now have access to the Federal Reserve discount windows?

The PPSSCC estimated 3-year savings of $5 million if CLF were eliminated.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO has not done enough analysis in this area to take a position on whether CLF is fulfilling its liquidity function, or on whether it should be continued. Abolishing it, however, would not save tax dollars.

CLF--designed to provide credit unions' liquidity--is funded by deposits and capital stock that member credit unions purchase and by loans from the Federal Financing Bank (FFB). In turn, CLF makes short-term liquidity loans to credit unions much the way the Federal Reserve does for banks. The PPSSCC found that CLF is also making longer-term loans, called Protracted Adjustment Credits, that are not used solely to maintain credit unions' liquidity. According to the PPSSCC, CLF is, in effect, getting a governmental interest subsidy because it borrows from FFB at less than full market rates. The PPSSCC maintained that CLF is "arbitraging" these relatively cheap rates by investing unloaned funds in higher yielding instruments, such as Eurodollars. Finally, since credit unions now have access to the Federal Reserve discount window, CLF is, in the PPSSCC's view, an unnecessary duplicative mechanism.

The PPSSCC recommended abolishing CLF, or, if not, restricting the kinds of investments it can make in unloaned funds to Treasury securities (so it cannot invest at higher rates than its FFB borrowings). Alternatively, according to the PPSSCC, the Congress should recognize the subsidy involved and appropriate directly for it.

NCUA said that it does not arbitrage borrowings from FFB. The CLF president said the PPSSCC staff was incorrect on the use of funds borrowed from FFB. He defended use of FFB on policy grounds, saying it helps insulate CLF from crises in the credit union industry. He said there is no real subsidy involved because unions pay CLF a rate higher than their normal source of liquidity, corporate credit unions. NCUA also does not believe that CLF duplicates the

Federal Reserve because the Federal Reserve may not provide sufficient loans to fulfill their legitimate needs. Besides, NCUA pointed out, credit unions established this facility because they believed they needed it. CLF does not waste any tax dollars, according to NCUA, since the credit unions themselves fund its operations.

If CLF is performing its liquidity function, as long as the industry needs it and is paying for it, CLF should be maintained. The CLF's use of FFB is, in fact, a policy decision which might be reviewed by Congress or the administration. The federal government would not save tax dollars by abolishing CLF.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC believes that NCUA and CLF have authority to implement the recommendations, and GAO agrees. NCUA has implemented some of the PPSSCC objectives but not in the manner recommended by the PPSSCC. NCUA could implement them by administrative action, but it would have to seek some sort of consensus by its members to drop the CLF. Given the fact that the CLF was begun by the member credit unions, such consensus is unlikely.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

Since the PPSSCC presented no detailed backup for its figures, GAO could not analyze the PPSSCC's savings estimate. Since member credit unions pay for the CLF's administrative expenses, abolishing CLF would not save any money for the government.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

Craig Simmons 275-8678

BUS-INS 12: SIZE OF RESERVES NEEDED FOR INSURANCE AND GUARANTEE PROGRAMS

I. PPSSCC ISSUE AND SAVINGS

"Are the reserves of the various insurance and guarantee programs adequate to account for possible catastrophic loss?"

The PPSSCC stated that savings potential is uncertain.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO supports the basic thrust of the PPSSCC recommendations to assess the potential for loss under government insurance and guarantee proposals and to adjust reserve requirements accordingly. GAO agrees that, to the extent possible, adjustments to reserves should be made program-by-program.

Although GAO supports full funding of insurance reserves wherever possible, in the case of many insurance programs it is doubtful how precise cost estimates can really be. Also, several considerations make it less urgent that efforts be devoted to this activity. The government is better able to absorb risks than private insurers and the consequences of having the government face insurance claims that exceed accumulated reserves are not so severe. It is, however, important if claims are to be honored promptly to be sure that the insurance funds can borrow from the Treasury or from other sources if they need to. In such an event, the costs of such borrowing should be borne by future premium charges against a relevant class of insurance beneficiaries, much the way this is now handled with the deposit insurance funds. (See Bank 33 for a discussion of the adequacy of insurance funds.)

The government needs to exercise some restraint in raising premiums on the basis of subjective cost estimates. As the sole provider of insurance--in some cases mandatory insurance--the government is in a position to impose whatever fees on private concerns it believes is appropriate. If set too high, these fees could work to the competitive disadvantage of those who are intended program beneficiaries. Also, because some of the insurance programs are related to accomplishing other goals (such as stability of the financial system), it may not be possible to spell out in advance exactly what limits the government

will impose on claims which it will pay. At the time of a catastrophe the government may in effect honor claims that represent only a moral rather than a legal obligation. Furthermore, the government's total potential contingent liability for catastrophic loss (whether a legal or moral one) is spread over a number of insurance risks, and it is therefore extremely unlikely that worst case scenarios would occur simultaneously in a large number of the insurance programs.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that implementation authority for these recommendations lies with OMB and other executive agencies. GAO work has been devoted to individual insurance programs. No legislative or executive action has been taken on the PPSSCC recommendation.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

No savings estimate was provided by the PPSSCC.

V. RELEVANT GAO REPORTS

GAO/ID-82-33 Examination of Fiscal Year 1981 Overseas Private Investment Corporation Financial Statements and Related Issues (Aug. 16, 1982)

GAO/CED-82-105 National Flood Insurance--Marginal Impact on Flood Plain Development--Administrative Improvements Needed (Aug. 16, 1982)

VI. GAO CONTACT

Craig Simmons 275-8678

BUS-INS 13: RISK-RELATED PREMIUMS

I. PPSSCC ISSUE AND SAVINGS

"Should the premium and fee rates charged by federal insurance and guarantee programs be computed by methods that more accurately reflect the true cost of the protection provided?"

The PPSSCC did not state savings potential for its proposals.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC recommended that all federal business insurance programs compute the total premium needed to operate at a break-even level, increase their rates to a break-even basis (where necessary and where explicit subsidies are not provided), and implement rates by several risk categories. GAO has no position on the PPSSCC recommendations. However, GAO supports the principle that beneficiaries of insurance, rather than the general public, should be responsible for the cost of insurance to the extent possible.

In GAO's opinion, the PPSSCC report does not adequately address two aspects of trying to tie insurance program funding more precisely to long-run costs of individual risks. One aspect is the complex issues concerning the extent to which the powers of government should be used in handling the costs of risk elements in various programs. Most federal insurance programs are likely to have additional public interest goals beyond providing insurance on a businesslike basis. This is certainly true of deposit insurance, where the insurance arrangement is one of several programs intended to enhance the safety and soundness of the nation's financial system. Furthermore, there may be legitimate reasons why the government would find it more desirable to spread risks over a broader class of institutions rather than trying to target higher premiums on particular subgroups that are believed to pose higher insurance risks.

The second aspect concerns the precise estimate of costs. Using banking as an example once again, it is not possible to assess risks to banking insurance funds on an actuarial basis so that one can know what premium should be charged. Furthermore, the PPSSCC has not demonstrated that the present system of industry-financed reserves is inadequate. (See discussion of recommendations <u>Bank 32</u> and <u>33</u> that deal with deposit insurance.)

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that the initiative for implementing these recommendations lies with the agencies. In the deposit insurance area, FDIC and FSLIC have proposed limited authority to vary insurance costs by risk. Congress would have to approve recommendations for actually changing insurance program financing.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

No estimated savings were cited by the PPSSCC for these recommendations.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

Craig Simmons 275-8678

BUS-INS 6: SALE AND DELIVERY OF CROP INSURANCE--FEDERAL CROP INSURANCE CORPORATION

I. PPSSCC ISSUE AND SAVINGS

The PPSSCC stated the issue as follows:

"What is the appropriate Federal role in sale and delivery of crop insurance?

"There are no near-term savings associated with this issue. However, the [PPSSCC] Task Force believes that implementation of its recommendations [that the primary delivery system consist of private insurance companies reinsured by the Federal Crop Insurance Corporation (FCIC)] * * * will reduce present program operating costs."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATION

Federal crop insurance is currently sold by private insurance companies through two delivery systems--(1) reinsured companies which write policies under their names and obtain reinsurance from FCIC to protect them from part of the risk of insuring crops and (2) master marketers which sell and service insurance for FCIC. The PPSSCC recommended that the primary delivery system be the first type, that is, private insurance companies reinsured by FCIC.

The Federal Crop Insurance Act of 1980 authorizes FCIC to use the private sector to sell and service crop insurance. FCIC has moved in this direction as an estimated 36 percent of premiums were written by reinsured companies in fiscal year 1983. Further, FCIC estimates that about 55 percent of its insurance coverage will be offered through reinsured companies in fiscal year 1985. However, GAO believes the PPSSCC's recommendation that the primary delivery system be reinsured companies is premature. In a 1984 report (GAO/RCED-84-65, 3/14/84), GAO recommended that the reinsurance program's expansion be moderated until the operation of the current reinsurance arrangement can be evaluated to assure that it is cost-effective for both the government and the insurance companies.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

FCIC has authority to implement the PPSSCC's recommended change. The Federal Crop Insurance Act of 1980 authorizes FCIC to use the private sector to sell and service crop insurance. It also directs FCIC to provide

reinsurance, to the maximum extent practicable, to private insurance companies and others that will insure producers under plans acceptable to FCIC.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC did not quantify savings on this issue.

V. RELEVANT GAO REPORT

GAO/RCED-84-65 More Attention Needed in Key Areas of the Expanded Crop Insurance Program (Mar. 14, 1984)

VI. GAO CONTACT

Brian Crowley 275-5138

BUS-INS 7: FINANCIAL MANAGEMENT SYSTEM--FEDERAL CROP INSURANCE CORPORATION

I. PPSSCC ISSUE AND SAVINGS

The PPSSCC stated the issue as follows:

"Should the Federal Crop Insurance Corporation's (FCIC) financial management reporting system be revised to more adequately control costs?

"Implementation of an improved financial management system is expected to produce overall savings, although the [PPSSCC] Task Force is unable to quantify these savings at this time."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATION

In crop year 1982, FCIC sold crop insurance in about 3,000 counties nationwide, up from 1,928 counties in crop year 1981. According to the PPSSCC's report, 46.8 million acres, or about 19 percent of the total eligible acres, were insured for crop year 1981. The number of contracts written was 323,913, which accounted for a premium volume of $383.7 million. The PPSSCC noted that any analysis of federal crop insurance data is complicated by the lack of synchronization in the reporting of expenses and premiums. For example, fiscal year 1982 (Oct. 1, 1981, to Sept. 30, 1982) includes premiums and losses from the 1982 crop year (Jan. 1, 1982, to Dec. 31, 1982), as well as expenses from both the 1981 and 1982 crop years. According to the PPSSCC, this makes it difficult to match and track expenses against the proper premiums.

The PPSSCC recommended that FCIC immediately devise a financial reporting system which presents financial data on a crop year basis as well as a fiscal year basis. In a 1984 report (GAO/RCED-84-169, 7/13/84), GAO discussed the need for FCIC to revise its financial reporting system. Although GAO did not make any recommendations, it pointed out that FCIC reports information for each crop year on a fiscal year basis.

FCIC is developing information for fiscal year 1984 to comply with the Financial Accounting Standards Board's[1] statement entitled "Accounting and Reporting by Insurance Enterprises" which requires a matching of costs and revenue. GAO is planning a research project with FCIC in the summer of 1985 to determine if the Board's statement

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[1]The Financial Accounting Standards Board is a private sector organization which determines the financial accounting standards to be used in preparing financial reports.

would be beneficial as an integral part of FCIC's financial management system or only for annual external reporting to be in compliance with generally accepted accounting principles. A potential problem is that accounting in compliance with the Board's statement would be in addition to, and may produce accounting information that conflicts with, existing Treasury/budgetary accounting.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

FCIC has the authority to implement the recommendation. According to an FCIC official, the U.S. Department of Agriculture is examining the development of the financial reporting system on a crop year basis as the PPSSCC recommended.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC did not quantify savings on this issue.

V. RELEVANT GAO REPORT

GAO/RCED-84-169 The Federal Crop Insurance Corporation's Efforts to Provide Monthly Reports to the Senate Committee on Appropriations (July 13, 1984)

VI. GAO CONTACT

Brian Crowley 275-5138

I. PPSSCC ISSUE AND SAVINGS

The PPSSCC stated the issue and savings as follows:

"Are the [insurance] rates of the Federal Crop Insurance Corporation (FCIC) actuarially sound, and is the overall level of premium adequate to pay losses and provide a reasonable reserve for unforeseen losses as required by the Federal Crop Insurance Act of 1980?

"Additional revenues from raising premium rates would be $45.2 million in Year 1, $93.9 million in Year 2, and $158.3 million in Year 3 for a total three-year revenue increase of $297.4 million."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC said that it strongly supports FCIC's hiring of a consulting actuary to recommend a rate-making methodology that would use current actuarial techniques to compute an adequate and equitable rate structure, and it recommended that rates be increased to comply with the new calculations.

For crop year 1982, FCIC offered insurance in 2,999 of the nearly 3,100 counties in the United States. In some counties, several different crops are insured, and in others only one. Each type of crop insured in each county is called a county crop program. During the 1982 crop year, insurance coverage was available for 28 crops under 14,498 separate county crop programs. Premiums are developed through an actuarial process which uses insurance experience of the crop insured, average county yields, the risk of crop failure in the area, and the amount of insurance protection per acre, including the price selection.

In an August 10, 1982, letter to FCIC and a 1984 report to the Secretary of Agriculture (GAO/RCED-84-65, 3/14/84), GAO discussed the need for FCIC to improve the actuarial soundness of its program. In the 1984 report, GAO pointed out that FCIC did not give appropriate attention to the actuarial soundness of its insurance and therefore had little assurance that the premiums set were adequate to cover potential loss claims. GAO recommended that FCIC give increased attention to completing actuarial reports depicting insurance experience for crop years 1980 and 1981 and that it consider using actual crop yield data to establish homogeneous risk groups and the proper relationships among each group's yield and risk rates.

The PPSSCC also recommended that FCIC provide the commitment necessary to develop software programs to provide a computerized system of rate development and that FCIC hire a permanent full-time professional actuary who is either an Associate or Fellow of the Casualty Actuarial Society. In its recent audit work, GAO has not reviewed the merits of these specific proposals.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

Existing legislation provides that premiums for insurance be set at rates actuarially sufficient to cover claims for losses and to establish a reasonable reserve against unforeseen losses.

FCIC has made substantial progress in implementing the 1980 act which called for expanding the crop insurance program. In a 2-year period (1981-82), FCIC increased the number of county crop programs by 8,529. However, many of FCIC's personnel were involved in the expansion effort which deferred normal actuarial review and evaluation activities. Since the expansion effort is substantially complete, staff time will be available to resume review and evaluation activities. Further, the recent hiring of an actuary should strengthen FCIC's actuarial practices.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

While GAO has called for changes to FCIC's actuarial practices, its recent audit work did not include an assessment of the reasonableness of the PPSSCC's savings estimate.

V. RELEVANT GAO REPORTS

GAO/RCED-84-65	More Attention Needed in Key Areas of the Expanded Crop Insurance Program (Mar. 14, 1984)
Letter report	Concerns About the Actuarial Soundness of the Federal Crop Insurance Program (Aug. 10, 1982)

VI. GAO CONTACT

Brian Crowley 275-5138

BUS-USPS 1: CAPITAL FINANCING

I. PPSSCC ISSUE AND SAVINGS

"Is Federal Financing Bank (FFB) financing the most effective method of obtaining capital for United States Postal Service (USPS) project funding?"

The PPSSCC said estimated savings (reduced costs) from obtaining financing directly from private capital markets would total $6.8 million over 3 years. This estimate was based, in part, on the assumption that the Service would finance its planned capital expenditures of $1 billion in each of the "next" 5 years.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO believes the FFB is the most effective method of obtaining capital for financing Service projects and, therefore, does not agree with the PPSSCC's conclusion that the FFB may not be the source of the lowest cost of capital in the future. When agencies issue debt instruments directly to private capital markets, the rates are generally higher than those they can obtain from the Treasury Department, where FFB obtains its funds.

The PPSSCC concluded that the Service cannot realize the full potential of its charter as an independent establishment of the executive branch of the government since it is precluded from direct access to private capital markets. On the basis of this conclusion, together with the conclusion that the FFB may not be the source of the lowest cost of capital in the future, the PPSSCC recommended that the Service be allowed to sell obligations directly to the public. GAO disagrees with this recommendation because it believes the Service is allowed by statute to obtain financing directly from private capital markets.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO disagrees with the PPSSCC's view concerning the authority to implement the recommendation. The PPSSCC said the Treasury Department and the Service should sign a working agreement whereby general restrictions on the sale of Service obligations are agreed upon. And, if an agreement cannot be established, Congress should revise the law to allow the Service to sell its obligations. GAO does not believe an agreement is necessary for the Service to sell its obligations directly, although such an agreement may be beneficial. GAO does not believe the law must be changed; rather, GAO believes the law already provides

the necessary authority. Moreover, GAO believes the Service will continue to obtain the most advantageous financing from the FFB.

The Service said that, although it is independent, it is also a part of the federal establishment. And, in that context, Treasury has a very important debt-management role to play and the Service does not need to be placed outside that umbrella. The Service continued that, on balance, FFB financing is the most effective method of obtaining capital for Service project funding. The Service said it would attempt to sell its obligations directly to the public only if required by the FFB.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO believes it would cost the Service more to issue debt obligations directly to the public than to use the FFB. Therefore, GAO does not believe that savings would result. In addition, GAO believes that agencies that issue their own securities incur additional administrative costs and underwriting expenses.

V. RELEVANT GAO REPORTS

Testimony	Operations of and the Budgeting for the Federal Financing Bank, by Harry S. Havens, Assistant Comptroller General of the United States, before the Senate Subcommittee on Federal Credit Programs, Committee on Banking, Housing and Urban Affairs. Apr. 5, 1983.

VI. GAO CONTACT

James Mitchell 275-8676

BUS-USPS 2: WORKING CAPITAL AND CASH FLOAT INVESTMENTS

I. PPSSCC ISSUE AND SAVINGS

"Should the U.S. Postal Service (USPS) cash investments be limited to Treasury Department securities?"

The PPSSCC estimated that the Service could earn $168.8 million over 3 years by improving the return on its investments. The PPSSCC added that the additional revenue the Service would realize would result in a cost to the U.S. Treasury. It concluded that Congress should reduce any Service operating appropriation by the amount of additional revenue the Service earns.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATION

GAO believes the Service should not be permitted to invest in commercial securities as recommended by the PPSSCC. If the Service is allowed to invest in non-Treasury securities, then other agencies and programs should have the same opportunity. (Examples of these agencies are the Federal Deposit Insurance Corporation, Social Security Trust Funds, and the Federal Savings and Loan Insurance Corporation.) As of June 30, 1984, the amount of Treasury debt held by federal agencies exceeded $250 billion. GAO believes the Treasury Department's interest costs would increase if it had to finance this amount of debt from private sources. Another consideration is that some of these agencies could borrow funds from the Treasury Department (i.e., the Federal Financing Bank (FFB)) at a rate which may be less than the rate they could earn from investments in commercial securities. Therefore, it could be advantageous for individual agencies to borrow the maximum amount possible from the Treasury Department and then invest it in private securities in order to take advantage of the "spread" between interest earned and interest paid.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that the Service could not implement the recommendation without an agreement with the Treasury Department or a legislative change. The Service would not favor making investments in commercial securities unless it was mandated to borrow funds from the private sector. Service management has found that the FFB provides more advantageous long-term financing terms than are available in the private sector. Moreover, the Service is assured access to up to $10 billion in credit from the FFB. To assure access to its lowest-cost debt source, the FFB, the Service wants to continue to limit its short-term investments to Treasury securities.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC estimated about a 2-percent point increase in the yield on the Service's investments. Since the PPSSCC did not specify what type of investments were acceptable, GAO has no basis to determine if the rate is realistic. In addition, the funds now appropriated to the Service are direct subsidies to preferred mail categories.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

James Mitchell 275-8676

BUS-USPS 3: INTEREST INCOME VS. INTEREST EXPENSE

I. PPSSCC ISSUE AND SAVINGS

"Should the United States Postal Service (USPS), as an independent Government agency, be allowed to continue to earn interest income at a rate better or worse than its existing interest rate on debt?"

The PPSSCC estimated earnings (revenue enhancements) of $110.5 million over 3 years. The PPSSCC stated that implementation of the recommendation results in a loss of revenue to the Treasury Department. The PPSSCC concluded that net interest income realized by the Service should be offset against the federal appropriation for postal operations for as long as the Service receives such an appropriation.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATION

GAO would not favor the PPSSCC's recommendation if maintaining the interest spread (i.e., the difference between interest earned on short-term investments and the amount of interest paid on debt) required investment in commercial securities. The PPSSCC recommended that the Service continue to conduct its investment and borrowing program based on business decisions that benefit the postage rate payer. In other words, the interest earned on short-term investments should continue to be greater than the amount of interest paid on debt. Over the years, the Service has invested its cash in Treasury bills and sold its debt obligations through the Federal Financing Bank, a unit of the Treasury Department.

GAO's position concerning the recommendation is guided by its position on BUS-USPS 2. GAO does not believe the Service should invest in commercial securities because of the potential increased costs to the Treasury Department to borrow from private sources funds which would have been otherwise provided by the Service and other agencies. Another reason is that agencies could borrow funds from the Federal Financing Bank at a rate which may be less than the rate they could earn from investments in commercial securities. Therefore, it could be advantageous for individual agencies to borrow the maximum amount possible from the Federal Financing Bank and then invest it in private securities in order to take advantage of the "spread" between interest earned and interest paid.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that the Service has the authority to invest in Treasury securities to earn interest at a rate better than it is paying on debt. GAO and the PPSSCC agree as well that the Service would need an agreement with the Treasury Department or a legislative change to invest in commercial securities.

The Service did not concur with the PPSSCC's view that congressional appropriations should be reduced. One reason is that the Service receives no general operating appropriation as such. The Service said the only funds appropriated are direct subsidies to preferred mail categories.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The savings estimate assumes a positive--income producing--spread between interest earned on short-term investments and interest paid on debt. Although until recently this has been true, it is more typical for rates on short-term securities to be lower than those on long-term securities. For example, in early November 1984, yields on 3-month Treasury bills were 9.72 percent, while those on 5-year Treasury notes were about 11.4 percent. Therefore, there is no basis for assuming that the positive spread characteristic of the late 1970s and early 1980s will be typical in future years and that revenue enhancements as estimated by the PPSSCC will occur.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

James Mitchell 275-8676

BUS-USPS 4: NET INCOME

I. PPSSCC ISSUE AND SAVINGS

Should the U.S. Postal Service attempt to earn sufficient net income to restore U.S. taxpayers' equity to its proper level?

No savings (additional net revenues) are directly attributed to the issue. Rather, the key is that taxpayers will not be required to subsidize Service users through lost equity, operating indebtedness appropriations, and unfunded liabilities.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

When the Service was established as an independent agency in 1970, it received the equity of all the assets held by the old Post Office Department. This equity was considered the taxpayers' equity in the new Service.

Service operating deficits over the years have eroded the taxpayers' equity, and the eroded equity has provided an unauthorized subsidy to Service users. By law, users are supposed to pay the full cost of the services they receive, which the postage rates should reflect.

GAO believes the PPSSCC's proposal is valid because Congress, when it established the Service, never intended for the taxpayers' equity to subsidize postage rates, which is what has occurred. Because the PPSSCC's recommendations are aimed at restoring the taxpayers' equity, each has merit. The PPSSCC recommended that the Service increase postage rates in excess of costs to generate an operating surplus sufficient to allow the taxpayers' equity to be restored. To obtain this increase and surplus, the PPSSCC recommended that (1) Service costs for fiscal years 1983 and 1984 be reviewed and, where possible, reduced and (2) the Service, after its costs are reviewed, prepare a rate case for submission to the Postal Rate Commission which will allow the taxpayers' equity to be restored over the next 10 years. (The Commission must review proposed rate changes before they can be implemented.)

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that the authority to implement the recommendations rests with the Service and the Postal Rate Commission. Restoring taxpayers' equity will require the Service to reduce its operating costs and/or to increase postage rates. Both approaches are

clearly feasible, and the Service has said it is following, with minor modification, all three of the PPSSCC's recommendations.

The Service adjusts postage rates every few years, and the latest adjustments will be implemented in February 1985. The cost base for establishing rates includes an amount for recovery of prior year losses, which should help to restore taxpayers' equity. The Service has taken the position that net income should be high enough to allow equity to be restored over a 9-year period.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

No savings are directly attributed to the issue.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

James Mitchell 275-8676

BUS-USPS 5: DISBURSEMENT COSTS

I. PPSSCC ISSUE AND SAVINGS

"Should the U.S. Postal Service (USPS) be restricted to Treasury checks as a disbursement vehicle?"

The Service could accrue savings (net increased revenues) of $60.1 million over 3 years by paying commercial rates for check disbursement instead of the rates charged by the Treasury Department. Because such savings to the Service would be a cost increase to the rest of the government, the PPSSCC recommended that any savings realized be offset by reductions in the Service's appropriation.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO does not entirely agree with the PPSSCC on this issue. The Treasury Department requires the Service to deposit enough money to cover checks as of the date drawn (the date on the check) rather than the date cleared (paid), which is later. The money kept on deposit between these dates is called the check float. Because the float is not available to the Service to earn interest income, the Service incurs an implicit cost to use the Treasury Department to disburse checks. The PPSSCC calculated this cost to be about $1.00 per check. The PPSSCC believes that with the 22 million checks the Service issues annually, the Service could obtain more favorable treatment at most banks, which generally charge 10 cents per check for their services. The PPSSCC recommended that the Service be allowed to negotiate the floats or implicit check processing costs with the Treasury Department and, if the Department cannot provide competitive rates, the Service should be allowed to obtain adequate services elsewhere at the most advantageous cost.

Unlike the PPSSCC, GAO does not believe the Service should use a commercial bank(s) to handle its checking account. The Service receives certain benefits from using the Treasury Department as its check disbursing agent such as the use of Treasury's system for following up and controlling duplicate, lost, and stolen checks. To an unknown extent, these benefits offset the implicit cost the Service pays the Treasury Department.

However, GAO does agree with the PPSSCC that the Service and the Treasury Department should negotiate the float or implict check processing costs. GAO believes the Service should be treated like the Social Security Administration and other agencies that have negotiated with the Treasury Department to receive benefits of the

float. Besides the benefits the Treasury Department provides, the negotiations should consider the check disbursement activities the Service performs that the Treasury Department does for other agencies. For example, the Service processes payment requests and prepares and mails the checks. Treasury performs these functions for many agencies.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC believes the Service and the Treasury Department have the authority to implement the recommendation to negotiate check processing costs, and GAO agrees. However, the PPSSCC believes the Treasury Department "currently" has no incentive to offer the Service reasonable rates or to allow it to use commercial institutions. In this case, the PPSSCC believes Congress would have to make a statutory change to allow the Service to shop around for the most appropriate source of check services. GAO agrees that congressional action would be necessary.

Service management said the Service should not be restricted to Treasury checks if a reasonable price per check cannot be negotiated with the Treasury Department. But the Service pointed out that it has no leverage at present in negotiating such prices. However, the issue would become moot if Treasury checks are replaced with electronic funds transfer payments, and the Treasury Department is moving in that direction. Electronic funds transfer payments would eliminate the float.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO has no basis to question the savings estimate.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

James Mitchell 275-8676

BUS-USPS 6: ZIP + 4/AUTOMATION

I. PPSSCC ISSUE AND SAVINGS

"Can the U.S. Postal Service (USPS) increase productivity and reduce costs through the implementation of the ZIP + 4 program and the deployment of a new system of automation?"

The PPSSCC estimated net savings of $277.4 million for the first 3 years of the automated system. The ZIP + 4 program was considered an integral part of the automated system.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO agrees with the PPSSCC's recommendations that the Service implement its automation and ZIP + 4 programs. GAO has studied the issue of automation and ZIP + 4 for the past 3 years and believes automation and ZIP + 4 will increase Service productivity while reducing costs. The automated mail sorting equipment and ZIP + 4 will enable the Service to sort letters much faster and with fewer personnel than the mechanical and manual operations now require.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO does not agree with the PPSSCC that congressional action is necessary to permit the Service to implement the automation-ZIP + 4 programs. Public Law 97-35, enacted August 13, 1981, prohibited ZIP + 4 implementation before October 1, 1983. Because Congress did not extend the prohibition, the ZIP + 4 progam could begin in October 1983, and it did. Implementation of the automation program has also begun. Automation equipment will be bought and installed in two phases. All of the equipment for the first phase has been bought and installed. For the second phase, the central pieces of equipment, optical character readers, were purchased in July 1984.

The Service is providing postage discounts to volume mailers who address their First-Class letters and postcards with ZIP + 4 codes. The Service needs ZIP + 4 addressed letters and cards from these mailers to maximize savings from the automated system. The discounts became available October 9, 1983.

Even with the discounts, mailers' use of ZIP + 4 during the program's first year fell far short of the level the Service envisioned. Whether use will eventually reach the future levels the Service predicted is unknown at this time.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The automation-ZIP + 4 program designed by the Service will not produce $277 million in net savings during its first 3 years as estimated by the PPSSCC because capital investment costs will exceed the savings the available equipment produces. Nevertheless, as GAO reported in January 1983, savings over the program's life, after netting for items such as equipment costs and postage discounts, should average close to or more than $277 million annually, provided mailers use ZIP + 4 codes to the extent and as soon as the Service estimated.

V. RELEVANT GAO REPORTS

GAO/GGD-84-78	Comparative Review Of Single-Line And Multiline Optical Character Readers Used In Mail Processing (Aug. 7, 1984)
Testimony	Comparative Review of Optical Character Readers Used in Mail Processing, by William J. Anderson, Director, General Government Division, before the House Committee on Post Office and Civil Service. June 14, 1984.
GAO/GGD-83-84	Conversion To Automated Mail Processing And Nine-Digit ZIP Code--A Status Report (Sept. 28, 1983)
GAO/B-206332	September 19, 1983, letter from the Director, General Government Division, to the Chairman, Committee on Post Office and Civil Service, House of Representatives
GAO/GGD-83-24	Conversion To Automated Mail Processing Should Continue; Nine-Digit ZIP Code Should Be Adopted If Conditions Are Met (Jan. 6, 1983)

VI. GAO CONTACT

James Mitchell 275-8676

BUS-USPS 7: NONDELIVERY OF CORRECTLY ADDRESSED MAIL

I. PPSSCC ISSUE AND SAVINGS

"To what extent can the U.S. Postal Service (USPS) increase its revenue by reducing or minimizing nondelivery of correctly addressed mail?"

The PPSSCC estimated that net revenues of $30.4 million could be realized over 3 years if nondelivery of correctly addressed third-class mail was cut in half--from 8 percent to 4 percent.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC recommended that nondelivery of correctly addressed third-class mail should be reduced from 8 percent to 4 percent and that Service management should devote substantial management attention and resources to correcting the problem. Although GAO does not know the size of the problem nor the amount of resources needed to correct it, GAO agrees with the basic ideas--management attention and reduced nondelivery--underlying the recommendations.

The issue concerns so called "nonpreferential" mail (second- and third-class mail, especially the latter). Such mail represents the fastest growing segment of the Service's business. GAO has not examined the delivery or nondelivery of nonpreferential mail. However, studies performed by a large third-class mailer and the Service demonstrated that the Service should be concerned about nondelivery of correctly addressed nonpreferential mail. The Service agrees that nondelivery must be reduced and also agrees that third-class mail generates additional mail (e.g., responses to advertisements) and, therefore, additional postal revenue.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC said Service management can implement the recommendations under existing authority, and GAO agrees. According to the Service, many of the programs the PPSSCC recommended are being or have been implemented.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO has not done the work required to evaluate the savings estimate. The estimate is based on a reduction in the number of nondelivered (but correctly addressed) third-class letters and the amount of mail generated in response to a delivered third-class letter. The Service believes the PPSSCC's figures--both of the size of the

problem and the amount of additional revenue that would be generated if delivery improved--are overstated. However, it still believes the savings would be substantial.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

James Mitchell 275-8676

BUS-USPS 8: MECHANIZATION

I. PPSSCC ISSUE AND SAVINGS

"Can U.S. Postal Service (USPS) costs be reduced and productivity improved through the expanded use of mechanization in mail processing systems?"

The PPSSCC estimates that net savings from the mechanization program and better utilization of letter sorting equipment would total $220 million over 3 years.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATION

The PPSSCC made a three-part recommendation, and all parts have merit for they are aimed at improving the efficiency of mail processing operations and thereby reducing Service costs. The recommendation calls for the Service to (1) continue to mechanize the sorting of flat mail (for example, large envelopes and magazines), (2) process more letter mail on existing sorting equipment rather than sorting it manually, and (3) develop alternatives to mail sacks to containerize second- and third-class mail.

Much of the mail the Service processes even today is sorted by hand. For example, in fiscal year 1982, about half of the First-Class and third-class letter mail sorted in major post offices to carrier routes was sorted by hand. (The percentage was probably higher in nonmajor offices.) Moreover, the kinds of mail the Service is most likely to sort manually has grown in volume in recent years. Manual sorting translates to lower productivity and higher processing costs, and the Service's costs are reflected in the postage rates postal customers pay. Clearly, the Service must lessen the amount of manual sorting it does in order to hold down its operating costs and postage rates.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that the recommendation can be implemented under existing Service management authority.

Installation of mechanized equipment to sort "flat" mail is scheduled to be completed during fiscal year 1985. Also, according to the Service, efforts to process all machinable, letter size mail on letter sorting machines are underway and should be completed during fiscal year 1985. The Service is examining several ways to receive bulk business mail in containers other than sacks. Elimination of sacks for bulk business mail would enable the Service to process such mail more efficiently.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC's estimate is built upon a Service study and its own, separate calculations. GAO has not reviewed the Service's study and therefore is unable to endorse or reject the PPSSCC's savings estimate. However, mail processing is a very labor intensive operation and reducing labor costs, which is what further mechanization would do, will probably produce sizeable savings.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

James Mitchell 275-8676

BUS-USPS 9: PRESORT PROGRAMS

I. PPSSCC ISSUE AND SAVINGS

"Can the U.S. Postal Service (USPS) achieve further cost reduction by expanding the mail volume in its current presort programs?"

According to the PPSSCC, net savings from converting 5 percent of the "current" nonpresort First-Class and third-class letters to presort programs would total $279.9 million for 3 years.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

Because presorted mail lowers the Service's operating costs, GAO, like the PPSSCC, favors further growth in presort mail volume. Mailers who participate in the presort programs separate their mail by ZIP Code or, in addition to ZIP Code, carrier route number. The programs are directed toward large volume mailers. Mail that has been presorted bypasses certain of the Service's mail processing steps, which reduces the Service's costs.

The PPSSCC made two recommendations, the first of which contained several parts: increase marketing efforts, increase cooperation with mailers, and make presort regulations more compatible with mailers' needs. The recommendation was designed to encourage greater use of the presort programs, and GAO concurs with this objective.

The second recommendation concerned the postage discounts mailers receive for presorting their mail. The PPSSCC said the Service should intensify efforts to ensure that the different presort discounts do not exceed related savings in processing costs. GAO has not examined the reasonableness of the discounts for they are reviewed by the Postal Rate Commission. Nonetheless, from the standpoint of fairness to all postal customers, GAO agrees with the recommendation. GAO has, however, examined whether mailers were doing all they were supposed to do to receive the discounts. They were not, and the Service has instituted procedures to correct the situation. The PPSSCC said the Service should continue its efforts to ensure that mailers are doing the work for which they receive postage discounts.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that Service management has the authority to implement the recommendations.

Perhaps the most effective catalyst for enlarging the volume of presorted mail is the size of the discounts mailers receive for presorting. On September 7, 1984, the Postal Rate Commission recommended discount increases to the Postal Service Governors. On December 12, 1984, the Governors announced their acceptance of the Commission's recommendations; the new postage rates and discounts will go into effect in February 1985.

Currently, mailers receive a 3-cent discount for each qualified, First-Class letter presorted to ZIP Code and 4 cents for each letter presorted to carrier route. The Postal Rate Commission recommended a 1-cent increase for both discounts. (The Postal Rate Commission also recommended that the price of a First-Class stamp be increased from 20 to 22 cents.) Both the absolute and relative size of the recommended discounts should attract more mail to the presort programs.

Presort growth may harm the Service's automation-ZIP + 4 program (see issue BUS-USPS 6). To maximize benefits from its new automated mail sorting equipment, the Service wants businesses to add ZIP + 4 codes to the addresses on their First-Class Mail. Mail that is carrier route presorted bypasses the automated equipment. Mail presorted to ZIP Code does go through the automated equipment. However, mailers who presort to ZIP Code may not see the need to add ZIP + 4 codes to their address files in light of any increase in the presort discount. The Service is counting on ZIP Code presorters to generate impetus and mail volume for the ZIP + 4 program.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC's estimate of savings appears quite conservative. It used certain First-Class and third-class mail figures from fiscal year 1981 as a base and estimated that the related presort volumes would increase, in total, about 9.5 billion pieces over 3 years. The actual increase has been much greater, due mainly to the increase in presorted third-class mail. Over 2 years--fiscal years 1982 and 1983--the increase approximated 13.8 billion pieces. Therefore, assuming the PPSSCC's savings-per-piece estimates were correct, total savings should be higher than estimated.

V. RELEVANT GAO REPORTS

GAO/GGD-82-72 Acceptance Procedures For Bulk Mailings: Postal Initiatives Show Promise (June 28, 1982)

VI. GAO CONTACT

James Mitchell 275-8676

BUS-USPS 10: AIR-TO-SURFACE DIVERSION

I. PPSSCC ISSUE AND SAVINGS

"Can the diversion to surface transportation of mail transported by air yield additional cost savings [to the U.S. Postal Service] without degradation of service?"

The PPSSCC estimated savings associated with the issue totaled $115.8 million for 3 years.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO believes the PPSSCC raised a valid issue. A June 1982 GAO report demonstrated that the Service could achieve sizeable savings, without degrading service, by diverting certain mail from air transportion to less costly surface transportation.

The PPSSCC recommended that the Service provide its regions specific guidelines with which to analyze transportation modes. This recommendation parallels GAO's own work and GAO concurs with it. However, GAO lacks the detailed information to comment on the PPSSCC's other recommendations. Those recommendations direct (1) transportation managers at Service headquarters to make more use of management science and operations research techniques and to establish multiple goal criteria for evaluating regional transportation management offices and (2) a Service task force to examine alternative modes of transportation rather than reviewing the contracting process for renewal of existing services.

III. GAO ANALYSIS OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC said the Service has the authority to implement the recommendations, and GAO agrees. The Service has taken steps to implement, on a national basis, the methodology used in GAO's 1982 report to analyze transportation modes. The Service agrees with all but one of the air-to-surface recommendations, and says it has taken action or action is continuing to implement those recommendations. The Service disagreed with one recommendation (more criteria to evaluate regional transportation office performance) because it believed its current activities accomplish the intent of the recommendation. GAO lacks the information to judge whether the Service is correct.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

Although GAO is unable to endorse the specific savings estimate, it does agree that the Service can save

millions of dollars annually by diverting mail, where feasible, from air to surface transportation.

V. RELEVANT GAO REPORTS

GAO/GGD-82-63 Potential Savings From Diverting Certain Mail From Air To Surface Transportation (June 18, 1982)

VI. GAO CONTACT

James Mitchell 275-8676

BUS-USPS 13: CENTRAL DELIVERY PROGRAM

I. PPSSCC ISSUE AND SAVINGS

"Can central delivery concepts significantly reduce [the U.S. Postal Service's] delivery costs while maintaining adequate service to customers?"

The PPSSCC estimated that savings totaling $154.4 million over 3 years could be obtained if internal and external efforts to market central delivery concepts are accelerated.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO agrees with the PPSSCC that central delivery can lower delivery costs while providing an acceptable service level. Under the central delivery concepts, mailboxes ("locked" boxes) are placed at central locations--such as the lobby of an office building or one or more sites within a neighborhood--and letter carriers deliver mail to these locations rather than going door-to-door. Mail recipients go to these locations to get their mail. (Boxes to collect mail may be at the locations as well.) The use of centralized locked boxes provides various benefits, such as increased letter carrier productivity due to fewer stops on a route.

The Service maintains an elaborate, nationwide mail delivery system that consumes a significant share of the Service's operating budget. In fiscal year 1984, for example, delivery services accounted for nearly 40 percent of all workhours expended and about 36 percent of all salary and benefit expenses through August 31, 1984. The Service will spend over $7 billion on delivery services during fiscal year 1984.

The PPSSCC's recommendations to strengthen and expand the Service's central delivery program have merit. The PPSSCC recommended strengthening and focusing of central delivery marketing and management, including parcel post lockers at central delivery sites, using effective standard specifications for central delivery and collection box units, using cost avoidance methods when installing central delivery units, evaluating whether "stand-alone" collection boxes are needed (as central delivery units are installed), and attaining the cooperation of all Service employees to ensure the program yields productivity benefits.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that the Service can implement the recommendations through existing authority. The Service essentially agrees with the recommendations and has taken or will take action to implement them. The Service said, however, that it cannot pursue as aggressive a marketing campaign as the PPSSCC recommended because Congress opposes conversion of older delivery areas to centralized delivery. Nevertheless, brochures and slides have been distributed to post offices to promote central delivery, and the number of centralized delivery stops has increased substantially.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO has no basis for assessing the validity of the assumptions and data the PPSSCC used to estimate savings. Service management believes the potential savings from central delivery are as large as the PPSSCC reported.

V. RELEVANT GAO REPORTS

Testimony	The Postal Service's Neighborhood Delivery and Collection Box (central delivery) Program, by James Mitchell, Associate Director, General Government Division, before the House Subcommittee on Government Information, Justice and Agriculture, Committee on Government Operations. Mar. 28, 1984.
GAO/B-213848	January 13, 1984, letter from the Director, General Government Division, to the Chairman, Subcommittee on Government Information, Justice and Agriculture, Committee on Government Operations, House of Representatives

VI. GAO CONTACT

James Mitchell 275-8676

BUS-USPS 14: CASING TRAYS

I. PPSSCC ISSUE AND SAVINGS

"Do casing trays and associated system efforts offer [to the U.S. Postal Service] savings in carrier office and delivery effectiveness?"

Because the PPSSCC was unable to determine the costs and availability of casing trays, it did not estimate net savings for this issue. However, it did estimate a gross annual savings of $600 million.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

Letter carriers must sort the mail they receive for their respective routes before deliveries can be made. To sort or "case" the mail, a carrier inserts mail into the compartments (pigeonholes) of a casing box; each compartment identifies one or more delivery stops on the route. After casing is completed, the carrier removes the mail from the compartments and ties or "straps" it into bundles. The PPSSCC reported that carriers average three hours each workday shift getting mail ready for delivery.

GAO believes the PPSSCC's casing tray proposal is worth examination by the Service. The proposal focuses on the possible use of casing trays as a way to increase the efficiency of the casing-strapping process. Increased efficiency would enable carriers to spend more time on the street delivering mail and could reduce the number of employees needed to deliver mail, all of which factors contribute to lower delivery costs.

The PPSSCC recommended that the Service design casing trays and field test prototypes of the trays. Both activities would be necessary before casing trays could be utilized.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC's recommendations are directed to the Service which has the authority to implement them. The Service has tested the concept of carrier casing trays and found the equipment difficult to handle and too space consuming. However, a redesign of casing equipment grew out of the tray concept, and this redesigned equipment may allow much of the savings benefits to be realized. The modified design shows promise, according to the Service's initial indications.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC was unable to estimate the amount of net savings available from the casing tray issue. It did, however, estimate gross annual savings of $600 million, which the Service disputes. The Service calculated gross annual savings of $100 million when it adjusted the PPSSCC's computations. Even at the low gross figure of $100 million, the potential for significant net savings over the long term clearly supports examination into more efficient casing equipment.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

James Mitchell 275-8676

BUS-USPS 17: REPLACING POST OFFICES WITH ALTERNATIVE SERVICES

I. PPSSCC ISSUE AND SAVINGS

"Can the U.S. Postal Service (USPS) reduce the costs of providing service to rural areas while maintaining adequate service levels?"

Anticipated savings associated with the issue would total $272.0 million for 3 years.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The issue of replacing small rural post offices with less costly but acceptable alternative services is both valid and sensitive. GAO has examined the issue several times over the years, and the two latest GAO reports, in 1975 and 1982 respectively, showed that the Service could save at least $100 million annually if it replaced small post offices with acceptable alternative mail services.

The PPSSCC recommended that Congress eliminate the current post office replacement process to allow the Service to realize more quickly the savings associated with replacement. The current replacement process allows public comment and requires public hearings to protect the interest of rural communities before closing a post office. Although the current process should probably be completed in less time than it now takes, GAO believes a community should not lose its post office without a public hearing and appeal rights.

The PPSSCC also recommended that the Service streamline its service to rural areas by replacing limited mail service offices with alternative services which are publicly acceptable. GAO's 1982 report took no position and made no recommendation as to whether small post offices should be replaced with acceptable alternative services.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees that implementation of the PPSSCC's recommendations would require Congress to make a statutory change. While Congress has historically urged the Service to streamline its operations in order to save money, it has also expressed concern that these efforts, particularly efforts aimed at closing post offices, should not result in any deterioration of service to postal patrons. Further, on several occasions since the creation of the Service in 1970, Congress has explicitly moved to protect post offices from being closed solely for reasons of economy and efficiency.

The Service disagrees with both of the PPSSCC's recommendations.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC used GAO's 1982 report to arrive at its savings estimate. While GAO was unable to track from the PPSSCC's report exactly how the GAO data was applied, the PPSSCC's estimate appears realistic.

V. RELEVANT GAO REPORTS

GAO/GGD-82-89	Replacing Post Offices With Alternative Services: A Debated But Unresolved Issue (Sept. 2, 1982)
GAO/GGD-75-87	$100 Million Could Be Saved Annually In Postal Operations In Rural America Without Affecting The Quality Of Service (June 4, 1975)

VI. GAO CONTACT

James Mitchell 275-8676

BUS-USPS 18: REDUCING MAIL DELIVERY DAYS

I. PPSSCC ISSUE AND SAVINGS

"Can the U.S. Postal Service (USPS) reduce costs by reducing the frequency of delivery from six to five days while maintaining service levels which are acceptable to postal customers?"

The PPSSCC believes that appreciable savings are attainable from reduced delivery days, but it did not have time to estimate those savings with acceptable accuracy during its examination.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

Reducing costs without reducing services to an unacceptable level should be a continuing objective of the Service. Mail delivery costs should be a prime target for review and possible reduction. Mail delivery services have accounted for nearly 40 percent of all workhours spent within the Service during each of the last few fiscal years and have cost (in salaries and benefits) close to $7 billion annually. With these figures in mind, GAO agrees that the Service should study 5-day delivery to determine impact on service and costs. Only after the completion of such a study could judgments be made as to whether a reduction in delivery days would be beneficial and acceptable.

The PPSSCC recommended that (1) Congress allow the Service to study the issue of 5-day delivery, (2) the Service conduct the study, and (3) Congress and the Service evaluate the study's findings in light of operating and budgetary constraints. The recommendations appear reasonable and GAO endorses them.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that Congress would have to make a legislative change in order for the Service to study 5-day delivery. The Omnibus Reconciliation Act of 1981 (Public Law 97-35) directed the Service to take no action from fiscal year 1982 through fiscal year 1984 "to reduce or plan to reduce the number of days each week for regular mail delivery." Through Public Law 98-369, dated July 18, 1984, the Congress extended the prohibition until the end of fiscal year 1987. The congressional conference committee that recommended the recent extension explained that to even consider a proposal to reduce mail delivery

days would violate the legislative prohibition. Accordingly, the Service will not attempt any studies of the subject until Congress lifts the prohibition. GAO believes the Service's position reflects the current congressional sentiment.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

Although the PPSSCC was unable to estimate savings within the timeframe of its examination, it noted that the savings estimated by past studies are not considered reliable today because they are based on outdated assumptions.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

James Mitchell 275-8676

BUS-USPS 19: PURCHASING ORGANIZATION AND RESPONSIBILITY

I. PPSSCC ISSUE AND SAVINGS

"Can the U.S. Postal Service (USPS) accountability and career focus for procurement staff be strengthened, thereby increasing its contribution to the cost-effective operation of USPS?"

The PPSSCC said that no estimate of specific savings could be made within the scope of its review, but industry practice shows that the ability to reduce the cost of purchased goods and services is related to an organization's definition of purchasing responsibility and quality of the purchasing staff.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC concluded that, within the Service, "better buys" and a more professional purchasing function can result from establishing a central purchasing focus and organizing the purchasing activities under one management authority. It recommended, in part, that the Service organize the responsibility for all procurement activity under one purchasing authority. The PPSSCC's conclusion and key recommendation is consistent with Executive Order 12352 (which concerns federal procurement reform), an Office of Federal Procurement Policy uniform procurement system proposal, and with a 1983 GAO report.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC said the authority to implement its recommendations rests with the Service and GAO agrees. The PPSSCC said the Postmaster General and the Postal Service Board of Governors should establish, under the Deputy Postmaster General, a Senior Assistant Postmaster General position which would be responsible for the entire purchasing function (i.e., procurement and supply, real estate and building, and transportation). The Service said, in its estimation, the rationale for establishing a senior-level procurement position was not overwhelmingly supported by the information the PPSSCC compiled. However, the Service is collecting information on its entire procurement and supply function, is open to the concept of centralizing the functions, and will consider such centralization during 1985.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

No savings estimate was made.

V. RELEVANT GAO REPORTS

GAO/PLRD-83-88	Progress Of Federal Procurement Reform Under Executive Order 12352 (June 17, 1983)

VI. GAO CONTACT

James Mitchell 275-8676

BUS-USPS 20: CAPITAL EQUIPMENT PROCUREMENT

I. PPSSCC ISSUE AND SAVINGS

"Can the [U.S. Postal Service's] cost of major capital equipment be reduced through increased meaningful early participation of [the Procurement and Supply Department] during the design and specification development stage of a project?"

In fiscal year 1981, the procurement office at Service headquarters committed over $460 million for capital equipment. Upon reviewing the equipment list, the PPSSCC believed that requirements for at least $200 million worth of equipment would benefit from increased Procurement Department involvement. This increased involvement would result in net savings of $66.2 million over 3 years.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The issue raises the question of whether benefit can be gained from early and meaningful involvement of Procurement Department personnel in the equipment acquisition process. GAO believes the answer is yes. Involvement in all phases of a procurement action is a proper function for procurement personnel and would, among other benefits, help to ensure that all procurement requirements are being met.

The PPSSCC's recommendations are directed to strengthening the Procurement Department's role in the procurement process and to holding it more accountable for ensuring that the procurement process yields the maximum value for the dollars spent. Both of these recommendations appear worthwhile if the Service is to successfully integrate the Procurement Department in the whole equipment acquisition process.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that the Service has the authority to implement the recommendations. The Service generally agrees with the recommendations. For example, Service management intends to adopt the recommended "team" approach. According to the Service, this approach will be formalized by issuance of a comprehensive guide designed to encourage all parties to work together smoothly early in the procurement process.

The Service believes the Procurement Department may be unable to ensure that the Service receives maximum

value for the dollars spent, even though the objective of the PPSSCC's recommendation has merit. The Service pointed out that the constraints of operating in the public sector may make the objective difficult to obtain. Attainment of as much value as possible within the confines of public sector purchasing is a practical objective.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC used its judgment and private sector experience to arrive at its savings estimate. Inasmuch as GAO is unaware of just what that experience was and its appropriateness in the public sector, it has no basis to question or endorse the estimate.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

James Mitchell 275-8676

BUS-USPS 21: SALE OR REUSE OF SURPLUS EQUIPMENT

I. PPSSCC ISSUE AND SAVINGS

"Can greater emphasis on investment recovery improve cash flow, reduce warehousing costs, and eliminate unnecessary record keeping and paperwork [for the U.S. Postal Service]?"

The 10 percent annual improvement in the sale of surplus equipment, which the PPSSCC estimated was immediately achievable, would produce cash accelerations of $8.7 million and interest savings of $1.8 million over 3 years. The PPSSCC stated that further savings could be generated from reductions in warehouse costs, paperwork and record keeping but was not able to quantify such savings.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATION

The PPSSCC believes an investment recovery program is an important management tool for conserving and generating capital. The sale or reuse of surplus equipment is part of the Service's investment recovery program. Surplus postal equipment includes such items as tables, scales, conveyor belts, jeeps and tractor trailers. The PPSSCC found that the Service's investment recovery program has become more effective (i.e., more equipment has been identified and sold or reused) but that improvements in the sale or reuse of surplus equipment were possible. The PPSSCC recommended a 10 percent annual increase in the identification and liquidation of surplus equipment. GAO believes the issue and recommendation appear appropriate because the Service is modernizing its mail processing equipment which will increase the inventory of equipment available for sale or reuse.

The PPSSCC did not discuss that portion of the issue referring to potential savings from reductions in warehouse costs, paperwork, and recordkeeping. However, it stands to reason that an increase in the sale or reuse of surplus equipment would reduce the Service's cost to store and keep track of such equipment.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that the Service has the authority to increase the sale of surplus property by 10 percent. The Service concurred with the recommendation. According to the Service, senior postal management has emphasized the identification, redistribution, and sale of equipment since about the beginning of fiscal year 1983.

Regional Postmasters General are taking a personal interest in the program. The Service said its headquarters is preparing a national program covering supply management, and that redistribution and disposal will be a major part of the course. Although not discussed by the PPSSCC or the Service, greater use or sale of surplus postal equipment should reduce the Service's cost to store and keep records on such equipment.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The Service anticipates that redistribution of excess property will increase approximately 10 percent annually over the next 3 years (1985-1987) as more automation is implemented and management gets better control of and improves the visibility of available resources. Based on the Service's forecast, the PPSSCC's savings estimate appears realistic.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

James Mitchell 275-8676

BUS-USPS 22: DISPOSAL OF EXCESS REAL PROPERTY

I. PPSSCC ISSUE AND SAVINGS

"Can accelerated efforts to dispose of excess real property improve the U.S Postal Service's (USPS) cash flow (cash acceleration)?"

The PPSSCC reported a 3-year cash acceleration of $14.8 million and interest savings of $2.9 million. These savings would stem from a 20-percent increase in the level of disposed property which would improve cash flow by approximately $4.5 million annually.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATION

The PPSSCC sees the disposal of excess real property as an important means of generating cash for the Service. That conclusion appears reasonable in view of the Service's extensive real property holdings and, therefore, the PPSSCC's recommendation that the Service accelerate the disposal of excess real property appears appropriate. However, GAO lacks sufficient knowledge to judge whether the second part of the recommendation--a 20 percent increase in the property disposed each year--is feasible.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC said the recommendation can be implemented under the Service's existing authority and GAO agrees. The Service says it has increased the emphasis on identification and sale of surplus real property, including the creation of a Realty Utilization and Disposal Division in its national Office of Real Estate. According to the Service, additional personnel have been dedicated to the disposal program within the regional offices to ensure timely sales. The Service said "problem" properties are being identified to ensure that the problem does not result in an untimely sale. And, the Service has increased its use of local real estate brokers. The PPSSCC believes more extensive use of local real estate agents would help speed the disposal process and reduce the Service's expense for properties valued at less than $100,000.

The Service said the establishment of a goal of a 20 percent increase in the property disposed of each year is unrealistic because only 5 of the 75 postal properties "currently" being processed for sale were vacant and ready for immediate transfer of title. The Service continued that, because the vast majority of all surplus properties results from the construction of a new facility, a period

of 24 to 36 months lead-time generally exists before the property is available for title transfer. And, when problems causing delays in sales do arise, their complexity is such that they cannot be resolved by implementing an artificial time constraint.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC based its estimate on the Service's average annual sales of excess real property over a recent 5-year period and a 20-percent increase in such sales annually. The dollar base--the Service's sales experience--appears reasonable. However, GAO has done insufficient work in the area to judge whether the establishment of a 20-percent goal is realistic. As noted earlier, the Service believes the establishment of a goal should not be considered.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

James Mitchell 275-8676

I. PPSSCC ISSUE AND SAVINGS

"Are the current programs being pursued by the U.S. Postal Service (USPS) Departments of Procurement and Supply, and Real Estate and Buildings capable of developing a strong proactive purchasing function?"

The PPSSCC said these "current" programs have resulted, and will continue to result, in improving the professionalism of the function and should increase the contribution that purchasing activities make to the Service. The PPSSCC added that reinforcement and top-level support of these programs will increase the Service's abilities to achieve savings through effective purchasing. It added, however, that those savings, though real, were not quantifiable when it was writing its report.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATION

The issue the PPSSCC raised concerns the degree of professionalism within the Service's purchasing function. It believed the Service would benefit if that professionalism was strong. The PPSSCC concluded that both the Procurement and Supply, and the Real Estate and Building Departments have developed strong professional organizations whose programs are being directed toward improving the contribution they make to the Service operations. The PPSSCC said such developments must be continued and accelerated, and recommended continued support from Service management. GAO also believes that continued support from Service management should be provided.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC said the Service has the authority to implement the recommendation and GAO agrees. Service senior management intends to continue to support a strong, proactive, purchasing function. For example, productivity is being improved, according to the Service, by automation, simplified procedures and regulations, and attention to the quality of working life. Human resources management will be improved by the development of a broad-based career program for procurement personnel.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

Savings were not quantified.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

James Mitchell 275-8676

BUS-USPS 25: MARKETING

I. PPSSCC ISSUE AND SAVINGS

"Can the U.S. Postal Service (USPS) become more effective in its relationship with its customers and more successful in the implementation of new products and services through the establishment of a centralized marketing organization?"

Potential savings which would result from this issue are not quantifiable.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATION

In connection with the issue, the PPSSCC recommended that the Service establish the position of Senior Assistant Postmaster General for Marketing and create an appropriate marketing organization.

GAO favors the establishment of both the position and the organization. Establishment would elevate the marketing function to the same level as other major functions within the Service and provide needed emphasis to the function. GAO's prior work (most recently on the Service's ZIP + 4 program--see BUS-USPS 6) has shown that the Service is deficient in marketing its products. Further, the Postal Service Board of Governors has stated that a major factor contributing to the failure of the Service's electronic mail program was poor marketing.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC said its recommendations can be implemented under existing Service authority and GAO agrees. The Service will continue to consider the recommendation during the coming year.

The Service notes that there would be outside constraints on what the PPSSCC wants the marketing organization to do. The PPSSCC wants the Senior Assistant Postmaster General to be vested with the responsibility for product pricing policy and the authority to set and modify procedures to improve the value of products to mailers. The Service says that much of its pricing policy (whoever sets it) is prescribed by statute and Postal Rate Commission procedure and that product enhancements are often classification changes also subject to statute and Postal Rate Commission procedures.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

Potential savings are not quantifiable.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

James Mitchell 275-8676

BUS-USPS 26: REVIEW OF THE POSTAL RATE COMMISSION BUDGET

I. PPSSCC ISSUE AND SAVINGS

"Should the responsibility for reviewing and funding the Postal Rate Commission (PRC) budget remain with the U.S. Postal Service (USPS)?"

The issue will not result in any direct savings to the Service or the federal government, according to the PPSSCC.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATION

GAO pointed out in a 1977 report that it is unusual for the funds of a regulatory agency--the Postal Rate Commission--to be under the control of the regulated agency--the Service. By law, the Commission must submit its proposed operating budget to the Service and the Postal Service Governors can, by unanimous written decision, approve or adjust the total amount of the proposed budget. (The Governors cannot approve or adjust specific line items within the budget.) In the 1977 report, GAO said the scope of the Postal Rate Commission's activities should not be subject to the perceptions of the Governors or the state of the Service's financial conditions. For those reasons, GAO recommended that Congress amend the Postal Reorganization Act to provide for congressional approval of any adjustments the Governors make to a Rate Commission budget.

The PPSSCC made a different recommendation. It recommended that the responsibility for review and approval of Postal Rate Commission budgets be transferred to the Office of Management and Budget. GAO considered a somewhat similar proposal in 1977 but believed congressional approval was the better alternative. GAO has not reviewed the matter recently but still believes the Governors should not unilaterally control the Rate Commission's budget.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

According to the PPSSCC, Congress must amend the Postal Reorganization Act to bring about the recommended change and GAO agrees. Such a change is not opposed by the Service. It agrees that the Office of Management and Budget should be given oversight responsibility for the Postal Rate Commission's budget. The Postal Rate Commission disagrees, however. It believes a more efficient and less costly approach would be for the Governors to review the budget only if it increased above a fixed

percentage from the previous year. The budget would receive automatic approval as long as it did not exceed the fixed percentage amount.

[Note: Funding for the Postal Rate Commission comes from the Service. The Service, Rate Commission, PPSSCC and GAO agree that that arrangement should continue because the costs of the regulatory agency become part of total postal costs and are passed on to the mailers through the rate-setting process. The issue the PPSSCC raised was not who should pay the Postal Rate Commission's operating budget but who should approve the budget.]

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

No savings were estimated.

V. RELEVANT GAO REPORTS

GAO/GGD-77-20 The Role Of The Postal Rate Commission Should Be Clarified (Apr. 7, 1977)

VI. GAO CONTACT

James Mitchell 275-8676

BUS-USPS 27: RATE-SETTING PROCESS

I. PPSSCC ISSUE AND SAVINGS

"Can changes in the existing process of establishing postal rates and classifications result in less costly and more expeditious decisions while being fair and equitable to the mail users?"

The PPSSCC said its recommended changes should reduce the costs of conducting a rate proceeding for the Service, the Postal Rate Commission, and the mail users. It could not, however, reliably estimate the savings amount.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO does not believe that major changes should be made in the postal ratemaking process because GAO's latest examination of the issue, reported in April 1984, found that process works reasonably well. The ratemaking process provided all interested parties an opportunity to particpate in ratemaking proceedings, developed an evidentiary record upon which rate decisions are based, and normally produced Postal Rate Commission recommendations to the Postal Service Governors for new postal rates in a reasonable amount of time. However, GAO did identify opportunities to improve and shorten the ratemaking process.

GAO cannot agree that Congress should allow the Postal Service Governors to modify a Postal Rate Commission decision by two-thirds vote rather than unanimous vote. Rate Commission decisions are reached after months of work (including the holding of hearings) on rate proposals: the Commission has 10 months to reach its decision. After such extensive considerations involving all affected parties, a unanimous vote by the Governors seems a reasonable requirement. Also, the requirement has not delayed or harmed the ratemaking process.

GAO also does not fully agree with the PPSSCC's recommendation that Congress should allow the Service to establish pilot products and test rates without Rate Commission decisions. In December 1980, the Rate Commission established special procedures that are intended to provide the Service with additional flexibility to test market new products and services. Because the Service believes these procedures prevent meaningful test market exercises, it has not used them, thus making it impossible to draw conclusions as to how well the process works. Before Congress is petitioned, the Service should attempt to utilize the special procedures to accomplish the objectives of the PPSSCC's recommendation.

GAO agrees with two of the four recommendations the PPSSCC made concerning the rate-setting issue. GAO agrees that the Service should improve its working relationship with the Rate Commission and that the Service should maintain at least a 2- to 3-year interval between omnibus rate increases. The interval between the last and the pending omnibus rate increase that will be implemented in February 1985 will approximate 3 years, and senior postal management has talked about the possibility of extending the future interval to 5 years. Before the Service can implement new postage rates, fees and mail classifications, the Postal Rate Commission must review the proposal and submit its recommended decision to the Postal Service Governors for approval and action.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that (1) legislation is necessary to change the voting requirement and to allow the Service to unilaterally establish pilot products and test rates and (2) the Service has the authority to implement the other recommendations.

The Service favors an improved working relationship with the Rate Commission, elimination of the unanimity requirement when the Governors vote to modify a Rate Commission decision, and the maintenance of intervals between rate changes. The Service has asked Congress more than once to grant it authority to establish pilot products and test rates and will continue to seek such authority.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

No estimate was made as to the amount of savings the recommended changes would produce.

V. RELEVANT GAO REPORTS

GAO/GGD-84-10 Opportunities To Improve The Postal Ratemaking Process (Apr. 23, 1984)

GAO/GGD-81-96 A Case Study Of Why Some Postal Rate Commission Decisions Took As Long As They Did (Sept. 8, 1981)

GAO/GGD-77-20 The Role Of The Postal Rate Commission Should Be Clarified (Apr. 7, 1977)

VI. GAO CONTACT

James Mitchell 275-8676

BUS-USPS 28: QUALITY OF WORK LIFE

I. PPSSCC ISSUE AND SAVINGS

"Can the employee involvement initiatives of the U.S. Postal Service (USPS), aimed at improving the quality of work life, have the ancillary benefits of increasing job satisfaction, increasing productivity, and generally resulting in smoother and more efficient operations?"

The PPSSCC said it is impossible to attach a specific savings to the issue. It added that employee involvement initiatives represent an effort that, if successful, potentially will pay ever-increasing and very significant future dividends over a period of many years.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

Although GAO has not examined the Service's employee involvement initiatives, it endorses the concept because the Service is a labor-intensive organization with major labor-management problems. Employee involvement is a method of improving the quality of work life--a formal effort to create a better working atmosphere. Such benefits as increased employee job satisfaction and productivity are common long-term goals of employee involvement programs. The Service took steps to initiate its employee involvement initiatives in 1982.

The PPSSCC concluded that the Service should proceed with all appropriate speed and effort to strengthen and extend the employee involvement initiatives, and recommended that Service management work with the labor organizations to focus attention immediately on a number of areas.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO concurs with the PPSSCC that the Postmaster General has the authority to implement the recommendations. The Service said that, in working with Service labor organizations, management is focusing on those areas the PPSSCC recommended for immediate attention.

The labor contracts between the Service and the unions that represent most Service employees were renewed in December 1984 and January 1985. The negotiations to renew the contracts were bitter and the binding arbitration procedure was used to produce the new contracts. The bitterness of the negotiations may adversely impact on employee involvement initiatives.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

Savings were not estimated for the issue.

V. RELEVANT GAO REPORTS

GAO/GGD-83-41	Labor-Management Unrest At The Salt Lake City, Utah, Post Office (Feb. 11, 1983)
GAO/GGD-82-78	Injury Compensation Program At The Fort Worth, Texas, Post Office (July 6, 1982)
GAO/GGD-82-35	Management/Employee Relations Problems At The Bennettsville, South Carolina, Post Office (Jan. 18, 1982)
GAO/GGD-81-107	Postal Service Employee Development Programs Need Better Management (Sept. 30, 1981)
GAO/GGD-81-62	Employee Concerns About Working Conditions At The San Antonio, Texas, Post Office (Mar. 30, 1981)
GAO/GGD-81-37	Management/Employee Relations Problems At Evansville, Indiana, Post Office (Feb. 19, 1981)
GAO/GGD-81-35	Personnel Management In Charleston, West Virginia (Dec. 19, 1980)

VI. GAO CONTACT

James Mitchell 275-8676

BUS-USPS 29: GRIEVANCE PROCEDURES

I. PPSSCC ISSUE AND SAVINGS

"To what extent can the effectiveness and efficiency of the grievance and arbitration procedures be improved to result in cost savings for the U.S. Postal Service (USPS)?"

The PPSSCC estimated savings of $63.5 million over 3 years. This estimate is based on the attainment of a grievance load that reflects 25 percent fewer grievances than filed for the 1978 to 1981 contract period and settlement of 50 percent of the remaining grievances before arbitration.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO reported in 1979 that the grievance-arbitration system within the Service was congested with grievances, resulting in higher costs than necessary. GAO believed that an improved system was the key to better labor relations in the Service. The data presented by the PPSSCC indicated that the number of grievances is still large, the costs are high, and improvements can be made. The Service agrees that there is room for improvement in the grievance and arbitration procedures and believes that reducing the total number of grievances by an appreciable amount would result in significant cost savings. Because the "bottomline" of the PPSSCC's recommendations is a more efficient, less costly grievance and arbitration system, GAO believes the recommendations have merit.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

All of the recommendations, according to the PPSSCC, can be implemented through Service activity and GAO agrees. The Service said it has been implementing the recommendations. The Service said improved labor-management workplace relations is a constant Service goal as demonstrated by the many labor-management meetings and implementation of the Quality of Worklife Program. However, the Service does not agree that a reduced number of grievances would be a measure of improved labor-management relations; it believes many other reasons exist for grievance filings. The Service said management has always encouraged grievance settlement at the lowest levels of the procedures. It said the recommendation to ensure that only the "right" issues are arbitrated and use expedited arbitration procedures whenever possible has already been implemented as evidenced by, for example, the use of new backlog procedures since 1981. Finally, the Service

agreed that the grievance and arbitration procedures should be streamlined and a review with that objective in mind was occurring.

Affected labor unions must agree to any change in contract language concerning the procedures. Although the Service's statements indicate that the recommendations are not new to Service management, the data the PPSSCC presents suggests a problem still exists and the Service agrees that there is room for improvement.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO has no basis to judge whether the PPSSCC savings estimate (or the Service's view) is realistic. Although our 1979 report provides ranges of costs, based on 1975 to 1978 data, the figures cannot be readily applied to the PPSSCC's savings calculations nor is such an application appropriate given the age of the numbers. GAO would expect, however, that a significant reduction in grievances would result in sizeable savings.

The PPSSCC based its savings estimate on information the Service provided and on its own interviews, experience and estimates. The Service questions the cost factors the PPSSCC used but agrees that an appreciable reduction in the total number of grievances would result in significant cost savings.

V. RELEVANT GAO REPORTS

GAO/GGD-80-12 Improved Grievance-Arbitration System: A Key To Better Labor Relations In The Postal Service (Nov. 28, 1979)

VI. GAO CONTACT

James Mitchell 275-8676

BUS-USPS 30: DUAL FILING BY GRIEVANTS

I. PPSSCC ISSUE AND SAVINGS

"Should the present system whereby employees can file independent complaints under both the grievance procedure and the Equal Employment Opportunity (EEO) complaint process be continued, given the high volume of dual filings? Also, can savings be achieved by better coordination and cooperation between the grievance handling function and the EEO function within the U.S. Postal Service (USPS)?"

The PPSSCC estimated that elimination of duplicate filing should reduce EEO processing costs by $61.0 million over 3 years.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO believes the fundamental issue--stop dual filings of grievances--has merit. The PPSSCC recommended that Service employees be discouraged or statutorily proscribed from engaging in dual filings and that the Service institute information systems and information exchange systems for EEO and grievance processing. Both would reduce the costs of EEO and grievance processing; however, GAO does not advocate discouraging employees from securing statutorily secured remedies.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that Congress, the Service, and the postal unions each possess authority to implement some aspect of the recommended actions. The Service agrees that the present system of dual filings is expensive and needs to be controlled. The Service, however, would employ an implementation strategy different from what the PPSSCC suggested--negotiating a contract provision with the postal unions to prohibit dual filing or so amending the Postal Reorganization Act and related regulations. The Service believes a more legally defensible solution would be to amend Title VII of the Civil Rights Act of 1964 to empower arbitrators to fully dispose of discrimination claims with direct review of such arbitration awards in the federal district courts.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC used data from a 1979 GAO report as a key factor in developing its savings estimate. Although the PPSSCC applied that data nationwide, the data applied only

to the Fort Worth, Texas, post office. GAO has no basis from which to conclude that the nationwide projection is reasonable and therefore believes the savings estimate is open to question.

V. RELEVANT GAO REPORTS

GAO/FPCD-79-82	Evaluation Of The Discrimination Complaint System At The Fort Worth, Texas, Post Office (Sept. 6, 1979)

VI. GAO CONTACT

James Mitchell 275-8676

BUS-USPS 31: OVERTIME

I. PPSSCC ISSUE AND SAVINGS

"Can cost reductions be realized from a more efficient use of overtime in the U.S. Postal Service (USPS)?"

The PPSSCC estimated that a reduction of union employees' overtime by about 10 percent would result in a 3-year savings of $327.4 million.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO raised the same issue in a 1983 report. The PPSSCC recommended that the Service (1) train supervisors to plan for workload fluctuations and to fully use straight time work hours; (2) attain, from the unions, more advantageous contract provisions regarding part-time and casual labor; and (3) improve labor-management relations. All three recommendations would have the effect of reducing the Service's labor costs and all three have merit.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that Service management has the authority to implement the recommendations. The Service agrees that improved training of supervisors will enhance workload planning and reduce overtime. A specific training course for supervisors is expected to be implemented during fiscal year 1985. Labor contracts were renewed (through binding arbitration) in December 1984 and January 1985 and provisions regarding part-time and casual labor remained generally unchanged. The Service has begun an Employee Involvement/Quality of Working Life program to improve labor-management relations.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

To determine savings, the PPSSCC assumed and applied a 10 percent reduction to the Service's fiscal year 1982 overtime costs for collective bargaining employees. The 10-percent goal appeared reasonable inasmuch as overtime hours declined by about 9 percent between 1981 and 1982 for collective bargaining employees. However, overtime hours for all Service employees have increased significantly between 1982 and 1983, and the 1984 figure will be even larger than 1983. (Most Service employees fall into the collective bargaining category.) If a 10-percent reduction can be achieved, and GAO believes such a goal is

not unreasonable, savings would be even greater than what the PPSSCC estimated because the base to which the 10-percent would be applied is greater.

V. RELEVANT GAO REPORTS

GAO/GGD-83-36	Postal Service Needs To Strengthen Controls Over Employee Overtime (Apr. 6, 1983)
GAO/GGD-83-41	Labor-Management Unrest At The Salt Lake City, Utah, Post Office (Feb. 11, 1983)
GAO/GGD-82-35	Management/Employee Relations Problems At The Bennettsville, South Carolina, Post Office (Jan. 18, 1982)
GAO/GGD-81-62	Employee Concerns About Working Conditions At The San Antonio, Texas, Post Office (Mar. 30, 1981)
GAO/GGD-81-37	Management/Employee Relations Problems At Evansville, Indiana, Post Office (Feb. 19, 1981)

VI. GAO CONTACT

James Mitchell 275-8676

BUS-USPS 32: PERSONNEL LEVELS

I. PPSSCC ISSUE AND SAVINGS

"In view of potentially lower future personnel requirements, to what extent can the U.S. Postal Service (USPS) take advantage of attrition to effect appropriate reductions?"

The PPSSCC recommended additional study of the issue to determine the number of positions which could be eliminated through attrition. It said savings other than the savings presented for other issues in its report (for example, savings derived from automation) cannot be derived without this further study.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

In GAO's view, the issue the PPSSCC raised is valid because the Service's management of human resources appears to lack guidance from an organized planning process. This lack of guidance is perhaps illustrated in the mail processing area. As automation has been introduced, an unsophisticated approach to human resources management has seemingly been used to reduce employee numbers and, as a result, a substantial increase in overtime has occurred. GAO, therefore, favors the PPSSCC's recommendation that the Service establish an overall centralized human resources planning capability to forecast, model, and monitor the impact of potential labor reducing occurrences. The PPSSCC also recommended that, after the planning recommendation is carried out, the Service set a goal of eliminating all unnecessary positions through attrition within the "next" 5 years. GAO does not know whether 5 years or some other length of time is an appropriate goal.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The Service has the authority to implement the recommendations according to the PPSSCC and GAO agrees. The Service has developed and is developing computerized systems which should enable it to do better human resources planning. For example, it recently finished developing major subsystems of a production planning and control system to better forecast and match workload and staffing. Also, Service management agrees that all unnecessary positions should be eliminated through attrition over the next 5 years.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

No savings were estimated.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

James Mitchell 275-8676

BUS-USPS 33: WAGE COMPARISONS

I. PPSSCC ISSUE AND SAVINGS

"Are wages paid to U.S. Postal Service (USPS) employees in excess of average industry wages and have they outpaced industry averages in the past?"

Specific savings, according to the PPSSCC, cannot be quantified at this time.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATION

The PPSSCC said certain statistics suggest that Service wage rates exceed the average rates paid in manufacturing industries in the private sector. By law, the Service must pay its employees wages comparable to those paid in the private sector. Labor unions represent most Service employees and "current" collective bargaining agreements between the unions and the Service had to be renewed in 1984. In light of the wage statistics and the scheduled contract negotiations, the PPSSCC recommended that the Service study its policies for pay increase based on comparability to the private sector during "upcoming" collective bargaining sessions. Because the law requires pay comparability and because labor costs account for about 83 percent of the Service's 20-plus billion budget, GAO concurs with the recommendation.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that the Service has the authority to conduct the pay comparability study. In April 1984, the Service and the labor unions that represent most Service employees began contract negotiations. In preparation for the contract talks, the Service commissioned a study which compared the wages paid Service employees with wages paid in the private sector. (The Service has also commissioned such studies in the past.) The results of the comparison shaped the Service's position for the negotiations: a wage freeze over the life of the new contracts and lower starting salaries for new employees. The unions, armed with their own wage comparison studies, disagreed. Because of the stalemate over wages, the binding arbitration step in the contract renewal process was used to attain new contracts in December 1984 and January 1985.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC did not estimate savings.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

James Mitchell 275-8676

BUS-USPS 37: SICK LEAVE AND LEAVE WITHOUT PAY

I. PPSSCC ISSUE AND SAVINGS

"To what extent can reductions in sick leave and leave without pay usage result in cost savings for USPS [U.S. Postal Service]?"

The PPSSCC estimated the Service would save $134.8 million over three years if sick leave usage each year was reduced about 6.25 percent below the sick leave level of fiscal year 1982.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO reported in May 1982 that the Service needed stricter control over employee absences and recommended that the Service consolidate absence control responsibility at the facility level and monitor unscheduled absences. The report recommended further that the Service establish standards for identifying employees with potential attendance problems and ensure that disciplinary actions were timely and progressively severe.

The PPSSCC recommended that Service management focus immediate attention on GAO's May 1982 recommendations and investigate private sector techniques in controlling sick leave costs.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that the Service has the authority to implement the recommendations. The Service said the goal of reducing sick leave and leave without pay is being pursued, and implementation of changes will be completed during fiscal year 1985. The Service said a "Management Instruction" has been completed, and this will provide for a more detailed and centralized review procedure to monitor employee leave usage. New computer programming and data collection methods are being introduced to identify employees' use of unscheduled leave of all types. The Service said it has not precluded the investigation and use of private sector programs that have demonstrated success in controlling sick leave costs. But, the Service believes its efforts to control sick leave costs are best directed to assisting supervisors in identifying and correcting employees with attendance problems and to effecting an overall change in those employees' attitudes toward attendance in general.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO believes reducing sick leave usage would produce sizeable savings but it has no basis to fully endorse the PPSSCC's estimate. To estimate savings, the PPSSCC translated sick leave hours used into workyears and then multiplied by an average workyear cost. In effect, the PPSSCC said another employee was hired for every workyear's worth of sick leave taken. Although this is true to some extent, the Service also "absorbs" sick leave to some extent also. That is, instead of hiring more employees or working employees overtime, the Service uses available staff, during their regular hours, to cover the work the person out sick would do. The Service does not know what portion of sick leave usage is absorbed nor the full additional cost associated with sick leave usage.

V. RELEVANT GAO REPORTS

GAO/GGD-82-58 Postal Service Needs Stricter Control Over Employee Absences (May 21, 1982)

VI. GAO CONTACT

James Mitchell 275-8676

BUS-USPS 34: TRADITIONAL VERSUS STANDARD SERVICE

I. PPSSCC ISSUE AND SAVINGS

"Can USPS [U.S. Postal Service] transportation expenses be reduced through adherence to established USPS standards ('standard service') where service is now exceeding those standards ('traditional service')?"

The PPSSCC did not estimate savings for this issue.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The Service has established standards for delivering classes and types of mail. For First-Class Mail, the standards are local overnight, 2-day and 3-day delivery and are based on the distance between mail origin and destination. However, actual mail delivery may be faster than the applicable standard. For example, the PPSSCC reported that approximately 20 percent of the First-Class Mail delivered in the fourth quarter of 1982 exceeded the 2-day standard and 50 percent exceeded the 3-day standard.

The issue the PPSSCC raised concerns mail that is continuously delivered sooner than the prevailing standard and what can be done to return the delivery service to standard or charge more for the better service. Whether mail will meet or exceed a delivery standard is greatly determined by the transportation network the Service has established to transport mail among post offices.

The issue appears valid for it raises the question of whether the Service could use cheaper transportation alternatives than now in use and still meet delivery standards. In this regard, the PPSSCC recommended that the Service focus immediate attention on analysis of transportation costs exceeding service standard and understand the composition of the type of mail being moved more quickly than the standard. GAO agrees with both recommendations because they could result in the use of appropriate but less costly transportation alternatives.

However, GAO has no opinion regarding the recommendation that the Service examine the possibility of collecting additional revenue for mail delivered quicker than the prevailing standard. The better service appears incidental to the work schedules and the transportation network the Service established between post offices. The Service does not guarantee such better service, although it can occur because of work schedules and the transportation network.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that the Service has the authority to implement the recommendations. The Service agrees with the PPSSCC's recommendation to study transportation costs and added that it is already part of the Service's ongoing effort to reduce aggregate transportation costs while achieving service standards. The Service did not recommend pursuing a study of the composition of the mail receiving traditional versus standard service and did not believe it necessary to make a specific examination of the possibility of collecting additional revenue from traditional mail service. It said current and ongoing rate studies are adequate to document cost and service differentials between and among classes of mail.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

Savings were not estimated. The PPSSCC said further study was necessary to determine the savings which may be attributed to the issue.

V. RELEVANT GAO REPORTS

GAO/GGD-82-63 Potential Savings From Diverting Certain Mail From Air To Surface Transportation (June 18, 1982)

VI. GAO CONTACT

James Mitchell 275-8676

BUS-USPS 36: CONTRACT STATIONS

I. PPSSCC ISSUE AND SAVINGS

"To what extent can the use of contract stations (including contract branches and community post offices) and Self-Service Postal Centers (SSPCs) be increased and result in cost savings and improved customer service for the U.S. Postal Service (USPS)?"

The PPSSCC estimated savings of $165.6 million over 3 years.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The issue--having a contract station instead of a postal facility staffed with postal employees--is sound because Service operating expenses could be reduced. Contract stations, which include so-called community post offices, are operated by private sector organizations under contract to the Service. Self Service Postal Centers use vending equipment, which can be located in post office lobbies or elsewhere, to service routine small transactions such as stamp purchases. The PPSSCC included such centers in its recommendation that the Service should aggressively market and pursue contact stations where efficiencies may be gained.

Neither GAO nor the PPSSCC, however, have sufficient data on the number of post offices in metropolitan areas which may feasibly be converted to contract services. Also, there is no information showing how many planned postal stations could be replaced by contract stations. The PPSSCC report states that the conclusions and recommendations are tentative and that further study is required to validate the conclusions and recommendations prior to their implementation.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that the Service has the authority to implement the recommendations. The Service does not support the wholesale conversion of stations and branches to contract stations because many are postal owned facilities which house delivery and mail processing operations in addition to retail services. The Service said contract stations can neither supervise mail sorting and delivery operations nor provide all the services stations and branches do.

The PPSSCC would like the Service to aggressively market and pursue the addition of contract stations. The

Service said local management determines the need for additional retail outlets and contract stations are added on a case-by-case basis when appropriate.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC employed a number of assumptions to estimate savings. GAO cannot endorse the estimate because no substantial evidence was provided to support the most critical assumption--the number of post offices which could be replaced by contract stations. Based on the Service's view that contract stations should not be added on a wholesale basis, the conversion of a large number of metropolitan post offices to contract stations is not likely over the next 3 years.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

James Mitchell 275-8676

SBA 1: TRANSFER OF LENDING TO THE PRIVATE SECTOR

I. PPSSCC ISSUE AND SAVINGS

How can the Small Business Administration (SBA) transfer more responsibility to the private sector?

PPSSCC estimated cost savings from increasing the private sector's role in SBA program activities at $246.8 million over 3 years.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

This issue has five recommendations. GAO believes one of the recommendations has some merit, questions another, and has observations on the remaining three.

GAO believes that the recommendation for SBA to reduce its maximum guarantee percentage on guaranteed loans from 90 to 75 percent deserves consideration. GAO's report "SBA's 7(a) Loan Guarantee Program: An Assessment of Its Role In the Financial Market" (GAO/RCED-83-96) discusses the impact of reducing the percent of SBA's guarantee in terms of (1) the number of loans banks would approve, (2) the maturity period of the loans, and (3) the size of the loans. Information obtained from over 700 banks showed that a reduction in the guarantee from 90 to 80 percent would not dramatically affect these three aspects of bank participation. However, a reduction to 70 percent would have a fairly significant effect on these factors since banks would have a much greater exposure to financial loss in the event a small business defaulted on a loan. In its review, GAO did not ask lenders to comment specifically on a guarantee level of 75 percent. Also, GAO did not ask banks to comment on whether a reduction in the guarantee percentage would affect marginal borrowers more than others.

The PPSSCC recommendation that GAO questions involve transferring greater loan-making authority to the private sector through the Certified Lenders Program (CLP) and the Preferred Lenders Program (PLP). In a 1983 GAO report entitled "SBA's Certified Lenders Program Falls Short of Expectations" (GAO/RCED-83-99), GAO found that: (1) lenders often submitted incomplete loan application packages; (2) lenders frequently prepared inaccurate or unreliable credit analyses; and (3) SBA had not realized any material resource savings as a result of transferring loan making responsibility to the private sector.

The three PPSSCC recommendations that GAO can offer some observations on are: (1) the SBA should eliminate direct lending with respect to business loans; (2) the SBA should require banks to liquidate troubled loans;

(3) the SBA should utilize private collection services to try and recover portions of charged-off loans.

Concerning the PPSSCC recommendation that SBA eliminate direct lending, GAO believes that one possible drawback to its adoption would be that congressional policy objectives of direct lending are to assist applicants that are unable to obtain private financing with or without Federal guarantees at reasonable terms. By nature, these loans are more risky and were expected to have a higher default rate.

GAO believes that the PPSSCC recommendation that SBA transfer the responsibility for liquidating troubled loans over to banks is logical and practical to the extent that banks are willing and capable of performing this function. SBA estimates that presently about 30 percent of banks are willing and capable of liquidating loans. This percentage could increase; however, SBA does not believe it will ever be possible to have all banks perform this function.

GAO believes that one consideration that might impact on SBA's use of private collection services on charged-off loans would be the extent that recoveries by private services exceeded those achieved under SBA in-house collection procedures. The PPSSCC report does not discuss SBA's in-house procedures nor demonstrate how a private collection service would improve upon these procedures. However, GAO has supported the use of private collection services when that is shown to be cost-beneficial to the government.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The recommendations pertaining to reducing SBA's guarantee percentage and eliminating direct lending require legislation. The three recommendations on bank loan liquidation, expansion of CLP and PLP, and use of collection services could be accomplished administratively. Except as noted in the preceding section, GAO has no basis for questioning the feasibility of implementing these recommendations.

SBA has proposed legislation for reducing the guarantee percentage and eliminating direct lending. As of October 1984, legislation has not been passed. For the remaining three recommendations, SBA is (1) encouraging banks to liquidate loans, (2) using private collection services on a pilot basis, and (3) implementing PLP on a national basis.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

Based on its work to date, GAO has no basis to assess the PPSSCC's total dollar estimates. However, GAO questions the assumptions used by PPSSCC to estimate that $7.2 million in personnel savings would accrue over three years by encouraging greater lender participation in CLP and PLP. GAO documented in its 1983 report on the CLP program (GAO/RCED-83-99) that CLP has limited potential for achieving substantial personnel savings. This is partly because of the small amount of additional time it takes to process a loan outside the CLP process. The PPSSCC estimates that 9 hours would be saved in processing a CLP loan, whereas GAO estimates that only about 2 hours could be saved. Further, the PPSSCC's savings estimate did not appear to recognize that the additional SBA staff required to monitor lender performance under CLP may not only cancel out the limited resource savings, but could possibly outweigh such savings.

V. RELEVANT GAO REPORTS

GAO/RCED-83-99	SBA's Certified Lenders Program Falls Short Of Expectations (June 7, 1983)
GAO/RCED-83-96	SBA's 7(a) Loan Guarantee Program: An Assessment Of Its Role In The Financial Market (Apr. 25, 1983)

VI. GAO CONTACT

John Luke 275-6111

I. PPSSCC ISSUE AND SAVINGS

Would the consolidation of all border management functions into one agency result in lower costs and a more effective operation?

PPSSCC estimated net savings of $13.5 million could be realized over 3 years if the PPSSCC recommendation to consolidate inspection services is implemented.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC proposal is not new and has been the subject of various proposals by the executive branch. GAO agrees with the PPSSCC recommendations that (1) the administration develop a comprehensive border management policy and (2) all responsibility for primary inspection functions currently performed at ports of entry be placed into one agency. GAO has reported on the need for a comprehensive operational plan for border control and single-agency management in the past and has made recommendations similar to these by the PPSSCC.

GAO also concurs with the PPSSCC recommendation to amend the 1911 and 1931 pay laws for Customs and the Immigration and Naturalization Service (INS). At issue is the efforts to bring the overtime, Sunday, and holiday compensation for INS and Customs inspectors more into line with other federal employees. GAO has recommended that legislation should be considered to provide that the overtime, Sunday, and holiday pay of inspectors at ports of entry be determined in accordance with the Federal Employees Pay Act of 1945, as amended, with some modifications.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The Department of the Treasury acknowledged the issue concerning the consolidation of border management functions. The latest proposal for border inspection consolidation was approved by the Cabinet Council on Management and Administration and, subsequently, by the President on January 5, 1984. Under the proposal, Customs would assume responsibility for all airport and seaport passenger primary processing. INS would be responsible for all land ports and patrol functions between the land ports of entry. Congressional approval has not been obtained to implement this proposal. GAO agrees with the PPSSCC that congressional approval is needed for the transfer of authority.

Proposed legislation to amend the 1911 and 1931 pay laws has been submitted to Congress by Treasury and the Department of Justice. No action was taken during the 98th Congress.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO has no basis for an opinion on the PPSSCC estimated cost savings associated with its proposal to consolidate inspection services. Customs, however, believes the savings may be greater than estimated by the PPSSCC. The PPSSCC did not estimate savings for its proposal to amend the 1911 and 1931 pay laws for Customs and INS.

V. RELEVANT GAO REPORTS

GAO/GGD-85-5	Observations On Overtime, Sunday, And Holiday Compensation For The U.S. Customs Service, Immigration And Naturalization Service, And The Animal And Plant Health Inspection Service Inspectors (Oct. 16, 1984)
GAO/GGD-78-17	Illegal Entry At United States-Mexico Border--Multiagency Enforcement Efforts Have Not Been Effective In Stemming The Flow Of Drugs And People (Dec. 2, 1977)
GAO/GGD-74-91	Premium Pay For Federal Inspectors At U.S. Ports-Of-Entry (Feb. 14, 1975)
GAO/B-114898	A Single Agency Needed To Manage Port-Of-Entry Inspections--Particularly At U.S. Airports (May 30, 1973)

VI. GAO CONTACT

Arnold Jones 275-8389

JUST 9: CONSOLIDATION OF PORT-OF-ENTRY INSPECTION SERVICE

I. PPSSCC ISSUE AND SAVINGS

"Can the inspection services for passengers and goods entering the United States be consolidated or simplified to produce savings to the Government and increased convenience to travelers and shippers?"

The PPSSCC estimated the 3-year savings to be $47.9 million: $11.0 million in the first year, $17.6 million in the second year, and $19.3 million in the third year.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

Over the years, GAO and others have studied the issue of simplified border management and have proposed the consolidation of border operations. GAO has supported the need for consolidated border management in prior reports, and GAO believes that the proposed actions would result in more efficient operations and cost savings.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC stated that initial improvements could be completed under existing Presidential authority, but that complete consolidation would require congressional action. GAO agrees. In this connection, a proposal adopted by the Cabinet Council on Management and Administration, and subsequently approved by the President on Janaury 5, 1984, provides that Customs would assume responsibility for primary processing of all airport and seaport passengers. The Immigration and Naturalization Service would be responsible for all land patrol functions between the land ports-of-entry.

The PPSSCC's work on this issue occurred prior to the cabinet council's proposal. This proposal, if implemented, would simplify inspection services.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

Estimated savings by consolidating positions may well occur, but GAO is not in a position to attest to the magnitude of these savings.

V. RELEVANT GAO REPORTS

GAO/GGD-78-17	Illegal Entry at United States-Mexico Border--Multiagency Enforcement Efforts Have Not Been Effective in Stemming the Flow of Drugs and People (Dec. 2, 1977)

GAO/B-114898 A Single Agency Needed to Manage Port-of-Entry Inspections--Particularly at U.S. Airports (May 30, 1973)

VI. GAO CONTACT

Arnold Jones 275-8389

TREAS 11: STREAMLINING CUSTOMS ORGANIZATION

I. PPSSCC ISSUE AND SAVINGS

Can the U.S. Customs Service streamline its current organizational structure to more effectively and efficiently accomplish its mission?

The PPSSCC estimated savings of $57.4 million could be realized over 3 years, assuming an inflation factor of 10 percent.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The question of the most appropriate organizational structure for Customs is not a simple one to address or resolve. The U.S. Customs Service is part of the Treasury Department. Due to congressional opposition and local communities' objections, Treasury initially rejected the PPSSCC recommendations to reduce the number of Customs regions, districts, and ports and to streamline the districts and ports by using the area concept of a lead and satellite structure. Treasury also initially rejected the recommendations to centralize the appraisement centers and the administrative centers. Although the specific recommendations were initially rejected, more than one organizational form could effectively accomplish Customs' mission.

On April 9, 1984, Customs recommended that Treasury accept the recommendations. The various studies concerning the need to reduce the number of regions, districts, and ports have been the subject of two GAO reports, and GAO provided a congressional briefing concerning Customs' efforts to centralize the appraisement centers. GAO recommended a reduction in the number of regions and districts in keeping with workload requirements and sound organizational principles.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

Customs believes that the current economic environment favors further cutting the cost of government and that early 1985 may be the opportune time for Customs to implement further reductions. GAO agrees with the PPSSCC that congressional concurrence will be necessary to implement the proposals. While the PPSSCC recommendations are logical, the feasibility of the organizational changes and the impact on Customs personnel and/or the private sector have not been determined.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO has no basis for an opinion on the cost savings the PPSSCC associated with these recommendations.

V. RELEVANT GAO REPORTS

GAO/FPCD-78-74 Reductions Needed In The Number of Customs Regions and Districts--Organizational Alternatives (Oct. 10, 1978)

GAO/FPCD-78-29 Achieving Needed Organizational Change: A Customs Service Dilemma (Mar. 30, 1978)

IV. GAO CONTACT

Arnold Jones 275-8389

TREAS 10: STREAMLINING CUSTOMS PROCEDURES

I. PPSSCC ISSUE AND SAVINGS

Can the U.S. Customs Service reduce the cost of processing commercial imports while improving performance and giving faster service to importers?

The PPSSCC estimated savings of $5.2 million in the first year and $119.7 million within the first 3 years, assuming an inflation factor of 10 percent.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO concurs with the PPSSCC recommendations that Customs (1) maintain strong management support and commitment to the ADP developmental work, (2) emphasize the Automated Broker Interface project, (3) develop and publish guidelines for office automation, (4) delegate authority to regional commissioners for implementing office automation projects, (5) review short and long-term systems availability and requirements, (6) implement a system for duty collection by account as soon as the entry processing system is ready to support it, (7) request legislation to raise the maximum level for informal entries--merchandise entering the country valued at less than $250--from $250 to $600, and (8) implement the Model Seaport Concept nationwide. Implementing these recommendations has the potential to improve the productivity of Customs' managers, professionals, and clerical workers.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that the recommendations can be implemented with executive action. Treasury and Customs officials accepted the PPSSCC recommendations. The Commissioner of Customs has issued a memorandum concerning the development and implementation of an integrated commercial system--for the processing of import documentation and customs duties--for computer application throughout the Customs Service. Customs has proposed implementation plans for other PPSSCC recommendations concerning office automation, a nationwide ADP plan, and alternative duty collection plans.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO has no basis for opinion on the PPSSCC cost savings for these recommendations. The PPSSCC projected savings are too generalized to evaluate.

V. RELEVANT GAO REPORTS

GAO/GGD-82-09	The Treasury Department And Its Bureaus Can Better Plan For And Control Computer Resources (Feb. 22, 1982)
GAO/GGD-79-08	Customs' Automated Merchandise Processing System (Oct. 24, 1978)
GAO/GGD-78-57	AMPS Cost/Benefit Study (Apr. 20, 1978)

VI. GAO CONTACT

Arnold Jones 275-8389

JUST 7: FEDERAL PRISON INDUSTRIES (UNICOR)

I. PPSSCC ISSUE AND SAVINGS

Can government revenues be enhanced through excess profit remittance from Federal Prison Industries, Inc., (UNICOR) and improved management of UNICOR?

The PPSSCC estimates that revenue enhancements would amount to $40.8 million for a 3-year period and are realizable if UNICOR remits 80 percent of the corporation's excess profits to the U.S. Treasury. According to the PPSSCC, the government can achieve additional, but unmeasurable, revenue enhancements by increasing corporate sales and efficiency through various actions.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO has reported on the need and opportunities to increase corporate revenues and agrees that UNICOR's profits represent potential savings to the government. These savings will occur if the profits exceed the needs of the corporation and if they (1) are, as the PPSSCC noted, paid to the U.S. Treasury or are used to reduce Federal Bureau of Prisons' appropriated funds; or (2) are used to reduce the prices charged federal agencies for the corporation's products and services.

The key issue, however, is not how excess earnings are passed on as savings but whether they exist. UNICOR's earnings from operations are used to fund (1) the Bureau of Prisons' inmate vocational training program and performance pay for prisoners performing prison maintenance work; (2) the corporation's capital improvement program; (3) inmate accident compensation; and (4) the corporation's working capital reserves. With the exception of an annual ceiling set by the Congress for the vocational training program, corporate officials determine the amount of earnings to be spent or allocated to these activities. In this regard, UNICOR has not paid any earnings to the Treasury since 1970, and corporate officials do not anticipate any excess earnings over the next few years.

Sales revenues and corporate efficiency are also, of course, key factors in this issue. The PPSSCC recommendations for continued aggressive marketing and for lifting civilian personnel ceilings imposed on UNICOR should increase corporate sales, earnings, and jobs. The recommendations are similar to earlier GAO recommendations. GAO, however, does not agree with the PPSSCC recommendation that UNICOR be exempted from federal procurement

regulations. Those regulations are designed to ensure that items are procured at the least cost to the government, and in GAO's opinion, there are no countervailing reasons to exempt UNICOR from the regulations.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC recommends that Justice implement aggressive marketing under its existing authority and that the President request Congress to (1) have UNICOR remit excess profits; (2) lift personnel ceilings imposed on UNICOR; and (3) exempt UNICOR from the procurement regulations. No congressional action is required for the marketing recommendation. While, by definition, the other recommendations require congressional action, it should be noted that UNICOR has the authority to determine the extent of excess profits and can opt voluntarily to promote savings by remitting those profits to the Treasury, as it did prior to 1971.

As noted earlier, UNICOR officials do not anticipate remitting any funds to the Treasury over the next few years. According to UNICOR officials, they prefer to use any extra funds for the betterment of the federal prison system. They also believe that this approach gives management incentives for generating excess profits by providing them with a voice in determining how the funds will be used.

UNICOR has taken some action on the other PPSSCC recommendations. The actions involving the PPSSCC recommendations for more aggressive marketing and for lifting personnel ceilings were initiated in response to earlier, similar GAO recommendations. UNICOR has re-examined its marketing practices and has undertaken various actions to increase sales and to develop a proactive rather than reactive marketing strategy.

UNICOR, in consultation with the Department of Justice's management division, revised its procurement regulations to allow factories, in certain situations, to avoid following governmentwide procurement regulations. The change is supposed to be used only on an exception-basis and under specified circumstances, such as urgent customer need for the product. Further, the exceptions are to involve factory procurements clearly associated with the production of goods and services and are not allowed for administrative procurements. According to a UNICOR official, no further action is planned on the PPSSCC recommendation that UNICOR seek exemption from federal procurement regulations.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO's analysis indicates that PPSSCC's estimated savings of $40.8 million over the 3-year period is unrealistic. UNICOR expects to realize less net income and to spend more on capital improvements than the PPSSCC estimated. According to data available as of the end of fiscal year 1984, UNICOR will realize about $13 million less revenue for the 3-year period (fiscal years 1983, 1984, and 1985) than estimated by the PPSSCC for the same 3-year period.

Further, the PPSSCC substantially underestimated UNICOR's capital improvement expenditures. The PPSSCC attributed its position on capital expenditures, in part, to GAO, which it said had given UNICOR approval to plan capital projects and inmate programs over the next 2 to 3 years. However, the PPSSCC was incorrect in saying GAO had given UNICOR approval to plan capital projects and inmate programs. While the corporation is subject to a GAO financial audit, GAO has no authority to approve or disapprove UNICOR programs or funding levels. The PPSSCC also incorrectly stated that the final decision to declare excess profits rests with GAO. That responsibility belongs to UNICOR and the Executive Branch.

V. RELEVANT GAO REPORTS

GAO/GGD-82-37 Improved Prison Work Programs Will Benefit Correctional Institutions And Inmates (June 29, 1982)

VI. GAO CONTACT

Arnold Jones 275-8389

I. PPSSCC ISSUE AND SAVINGS

"Can personnel costs at the Federal Communications Commission (FCC) be reduced by improving the existing Management-By-Objectives (MBO) Program; activity cost accounting and productivity reporting practices; and the performance evaluation system?"

The PPSSCC expects savings to occur as FCC implements the recommendations; however, the PPSSCC does not offer a precise quantification of these benefits.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

This issue addresses 9 separate recommendations. GAO has addressed one of these--the need to establish a cost accounting and improved management information system. In this regard, the PPSSCC cites GAO's 1979 audit report of FCC operations for greater management and regulatory effectiveness, and, specifically, the GAO recommendation that FCC implement an integrated management information system. The other 8 PPSSCC recommendations relate to detailed changes in FCC's performance appraisal process and MBO program--areas which GAO has not specifically reviewed and has not taken a position. While GAO has not done the analysis necessary to specifically support the PPSSCC recommendations in these areas, based on discussions in September 1984 with FCC's Associate Managing Director for Operations, they generally seem to be reasonable.

GAO continues to believe that there is a need for FCC to establish an internal cost accounting system as a way to improve its ability to evaluate the costs involved in carrying out its regulatory activities. GAO recognized the need for such a system in a 1977 report on FCC user fees, as a way to both improve FCC's management and form the basis for a FCC user fee schedule. FCC must have a cost accounting system in place in order to charge users for actual costs of FCC activities. (User fees are discussed further in issues BUS-FCC-3 and USER-14.)

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

Most of the 9 recommendations in this issue relate to procedural changes. However, one recommendation--the establishment of a cost accounting system at FCC--could result in a substantial improvement in FCC management. The cost accounting system could also form the basis for establishment of a FCC user fee schedule. GAO has supported the establishment of an FCC cost accounting system, but FCC has taken no action to implement such a system because it

believes the cost of establishing and maintaining the system would outweigh its benefits. FCC can establish a cost accounting system through administrative action.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

Savings can be expected to occur as FCC implements the recommendations; however, the PPSSCC does not offer a precise quantification of these benefits. The PPSSCC estimates that it would cost $1.5 to $2.5 million to implement a cost accounting system, but that this cost would be, at least, offset by productivity improvements at FCC. GAO has not carried out a detailed evaluation of the cost of implementing a cost accounting system at FCC and, therefore, cannot specifically assess the PPSSCC's cost estimates. GAO, however, agrees with the PPSSCC's view that implementation of the system will be cost beneficial, particularly if it is used as both a management tool and as a basis for establishing user fees.

V. RELEVANT GAO REPORTS

GAO/CED-79-107	Organizing the Federal Communications Commission for Greater Management and Regulatory Effectiveness (July 30, 1979)
GAO/CED-77-70	Establishing a Proper Fee Schedule Under the Independent Offices Appropriation Act, 1952 (May 6, 1977)
Testimony	Effects of Changes in the Telecommunications Industry on FCC's Operations, by J. Dexter Peach, Resources, Community and Economic Development Division, before the Government Information, Justice, and Agriculture Subcommittee, House Committee on Government Operations (Sept. 27, 1983)

VI. GAO CONTACT

Herbert McLure 275-4905

BUS-FMC 2: HANDLING OF TARIFFS

I. PPSSCC ISSUE AND SAVINGS

"What alternatives exist to the current system of processing and managing tariffs at the Federal Maritime Commission (FMC)?

This issue addresses automating and contracting out the manual system of handling and processing tariffs at FMC. The recommendation is to complete an examination of the issue; therefore, savings estimates have not been included in the Report."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATION

GAO pointed out in a report on the FMC (GAO/CED-80-20, January 18, 1980) that FMC's computer facilities needed upgrading so that better and more timely information would be provided to users. Upgraded computer facilities would permit the process of filing and changing tariffs to proceed more efficiently. Therefore, GAO agrees with the PPSSCC recommendation that FMC should examine alternatives to its current system of processing and managing tariffs.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees that FMC has administrative authority to automate the tariff system and that there are no technical barriers preventing this action.

FMC agrees with the PPSSCC recommendation that FMC take the initative to study the potential for automating the tariff system, and is taking administrative action to evaluate alternatives automated systems.

FMC has established a task force to determine what type of automated system will be developed; that is, whether the FMC or the private sector will run the system. The task force has to make major decisions such as, what information shippers and carriers want, and what they are willing to pay to access the automated system. In addition to deciding to establish an automated system, the task force has decided that the legal filing requirements will continue and that FMC must control whatever system is developed.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC made no savings estimate for an automated tariff system because its recommendation was that FMC examine the issue.

V. RELEVANT GAO REPORT

GAO/CED-80-20 Essential Management Functions at the Federal Maritime Commission Are Not Being Performed (Jan. 18, 1980)

VI. GAO CONTACT

Oliver Krueger 275-6111

BUS-FMC 3: PROCESSING OF AGREEMENTS

I. PPSSCC ISSUE AND SAVINGS

"What improvements can be made to expedite agreements processing at the Federal Maritime Commission (FMC)?

Implementation of the Task Force recommendations will significantly improve agreements processing at FMC. Savings are not projected from the issue at this time."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO agrees with the PPSSCC recommendation that FMC take short-term and long-term actions to expedite the processing of proposed agreements between carriers and shippers on rates and other practices. GAO in a 1980 report on FMC (Essential Management Functions at the Federal Maritime Commission Are Not Being Peformed, GAO/CED-80-20, Jan. 18, 1980), discussed the agency's case-by-case approach to reviewing agreements. GAO recommended setting priorities in processing carrier-shipper agreement cases and in handling cases involving formal FMC proceedings which include investigations of the proposed agreement terms. This prioritization of cases would enable FMC to devote its scarce staff resources to the higher priority cases first. The Shipping Act of 1984 expedited agreements processing at FMC by establishing a 45-day time limit for FMC determination of whether an investigation of a proposed agreement was needed.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

On the basis of our prior work GAO agrees with PPSSCC that FMC can take administrative actions to expedite agreements processing based on a classification system of long- and short-term actions. The classification system would set priorities in the processing of agreements. For example, as a long-term action, PPSSCC recommended that FMC require early consultation between various FMC offices to deal with shipper protests to agreements. FMC would then decide whether consultation should occur in responding to protested agreements or to non-protested agreements having competitive consequences.

While GAO has no basis for an opinion on the 45-day time limit established by the Shipping Act of 1984, we agree with the PPSSCC that setting specific time limits for FMC to process proposed agreements would require congressional action. In fact, the Congress did take such action in passing the Shipping Act of 1984.

FMC developed a classification system of long- and short-term actions before the Shipping Act of 1984 to speed the processing of agreements. However, one provision of the Shipping Act of 1984 changed FMC's classification process of

approving agreements. Under the Act, proposed agreements filed by carriers with FMC would automatically become effective in 45 days unless FMC found some anti-competitive practice. Before the Act there was no time limit for FMC to process a proposed agreement. Because the Shipping Act requires quick assessments of proposed agreements, FMC's Bureau of Agreements has hired economists to develop economic profiles that would show the likely competitive impact of proposed conference agreements. The profiles would also show whether questionable practices exist. If FMC found an issue requiring investigation, it must decide within the 45-day limit whether to start an investigation.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC made no savings estimate. GAO's report also made no savings estimate, therefore, GAO has no basis for an opinion on potential savings associated with this recommendation.

V. RELEVANT GAO REPORTS

GAO/CED-80-20	Essential Management Functions at the Federal Maritime Commission Are Not Being Performed (Jan. 18, 1980)
Correspondence	Response from Comptroller General to Chairman, Committee on the Jurdiciary, House of Representatives, concerning questions relevant to pending legislation on regulation of the maritime industry (June 1, 1983)

VI. GAO CONTACT

Oliver Krueger 275-6111

BUS-ICC 1: ORGANIZATION AND PLANNING

I. PPSSCC ISSUE AND SAVINGS

Can the Interstate Commerce Commission (ICC) operations be improved and conducted in a more efficient and austere manner if the ICC establishes long-term goals and a plan for achieving them?

"Savings of an indefinite amount can be achieved if organization and planning are improved."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATION

GAO agrees with the PPSSCC recommendation that ICC should improve its organization and planning function by developing a five year plan to identify the most significant functions remaining after passage of the 1980 legislation. GAO also notes that another significant statute to be considered in developing a five year plan was enacted in 1982 changing ICC's regulation of the interstate bus industry. The 1980 and 1982 legislation reduced ICC's role in regulating the surface transportation industries by allowing new carriers to more easily enter the industries and by granting greater flexibility to all regulated carriers to change prices--thereby encouraging greater competition within these industries.

In our recent report--The Interstate Commerce Commission Can Better Manage Its Enforcement Program, GAO/RCED-84-131--GAO found that the ICC had not developed clear and consistent program goals to properly manage and allocate its enforcement resources in light of the policy changes resulting from the regulatory reform legislation of 1980 and 1982. GAO recommended that the ICC Chairman in conjunction with the other Commissioners determine the proper role for ICC's compliance and enforcement activities as a result of the new legislation by identifying appropriate goals for the activities and establishing meaningful priorities to assist in allocating resources to accomplish these goals.

However, PPSSCC assumes such a review will result in substantial personnel cuts. GAO does not believe that prior to development of the plan and delineation of the changing roles of the ICC, that a significant reduction in personnel levels should be the focus of the plan. GAO believes that, in developing a five-year plan, ICC should emphasize the development of an effective, as well as economical operation.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

As recognized by the PPSSCC, implementation of the recommendation would require an ICC study to determine the long-term goals, including appropriate staff levels, mission to be performed, and the cost-effectiveness of various regulatory efforts. Such a study would be within ICC's administrative authority. However, appropriate budget and staffing levels developed would be reviewed by Congress.

GAO was told by an official in the ICC Chairman's office that in response to PPSSCC recommendations, the ICC plans to perform a reorganization study. The study will consider what functions ICC should perform in light of the new legislation of 1980 and 1982, as well as, what functions it would perform if legislation being considered by the administration to fully deregulate the motor carrier (trucking) industry is passed. The primary emphasis will be to look at methods to merge functions or activities to improve the effectiveness and economy of ICC's organization.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC made no savings estimate for the recommendation that the ICC establish long term goals and a plan for achieving them.

V. RELEVANT GAO REPORT

GAO/RCED-84-131 The Interstate Commerce Commission Can Better Manage Its Enforcement Program (May 24, 1984)

VI. GAO CONTACT

Oliver Krueger 275-6111

BUS-ICC 5: OFFICE OF COMPLIANCE AND CONSUMER ASSISTANCE

I. PPSSCC ISSUE AND SAVINGS

"In view of deregulation legislation passed in 1980 and current budgetary constraints, has the Office of Compliance and Consumer Assistance (OCCA) made appropriate reductions in its operations, personnel, and expenses?"

PPSSCC notes that due to the preliminary nature of the PPSSCC's study and the need to establish staffing levels based on long-term planning as also recommended by PPSSCC, savings estimates have not been generated.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATION

GAO does not agree with the PPSSCC recommendation which states that the opportunities for cutting staff levels should be investigated and that OCCA should reduce its discretionary activities in order to reduce staff levels. GAO recently completed a review of the management of ICC's compliance and enforcement activities--the primary responsibility of OCCA. In a report issued on that review--The Interstate Commerce Commission Can Better Manage Its Enforcement Program, GAO/RCED-84-131--GAO recommended that the Interstate Commerce Commission (ICC) establish goals for its enforcement program in light of the changes in ICC's regulatory role but did not comment on the appropriate staffing level for OCCA. GAO believes that the functions and activities of OCCA should be revised in relation to ICC's new role and that any decision involving staffing levels be consistent with its new role.

The PPSSCC states that over 50 percent of the regional office staff may be engaged in "discretionary [investigative] activities which are begun without prior knowledge of serious wrongdoing." The PPSSCC further contends that such "investigations do not generally result in findings of significant harm to the public interest or in significant penalties to the carriers in question."

In our report, GAO found that ICC regional offices were directed to react to complaints only and, as a result, were not able to direct resources into higher priority or more serious violation areas which the PPSSCC characterized as "discretionary." In order to improve the effectiveness of ICC's enforcement program, GAO recommended that OCCA be given adequate flexibility to address the more significant areas of enforcement rather than limiting their "discretionary" activities.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

PPSSCC notes that within one year, the recommended reductions in staff could be made on ICC's authority. GAO believes that a study of OCCA's long-range goals and the assessment of its appropriate staffing levels can be made within ICC's administrative authority. However, GAO believes that appropriate budget and staffing levels developed would need to be reviewed by the Congress.

ICC has completed its review of goals for its enforcement program and has established new goals and priorities for the program. The question of staffing levels will be addressed in a reorganizational study of all ICC functions that ICC is planning to perform.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

PPSSCC did not quantify specific savings due to its study's preliminary nature and the need for staffing levels to be based on long-range planning. In its report, GAO did not determine the appropriate staffing levels for OCCA based on the similar reasoning that enforcement goals needed to be established in light of regulatory reform before appropriate staffing levels can be determined.

V. RELEVANT GAO REPORT

GAO/RCED-84-131 The Interstate Commerce Commission Can Better Manage Its Enforcement Program (May 24, 1984)

VI. GAO CONTACT

Oliver Krueger 275-6111

BUS-ICC 3: BUREAU OF TRAFFIC

I. PPSSCC ISSUE AND SAVINGS

"Would it be desirable to eliminate the [ICC-enforced] statutory requirement of tariff filing? Short of a major modification of tariff filing requirements, can savings be effected in Bureau staffing levels?"

"Three-year cost savings of $11.2 million may be possible but should be considered in the long-range development plan."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATION

PPSSCC recommends that ICC investigate the opportunity to phase out or reduce tariff filing requirements. GAO agrees that given the shift in the ICC's role under the Motor Carrier Act of 1980 and the Staggers Rail Act of 1980 a study of ICC's tariff function is appropriate.

These acts allow carriers to adjust their prices more easily and encourage increased price competition between carriers. The tariff system may impede timely price changes in that the system requires carriers to notify ICC of price changes in advance of their effective date. PPSSCC notes that the importance of the tariff system has been reduced since statutory exemptions and increased use of contracts mean that less traffic is now covered by published tariff rates.

On the other hand, tariff regulations have been left in place to protect shippers with limited shipping alternatives, in that, tariffs provide the primary mechanism for these shippers to protest rates.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

As noted by PPSSCC, congressional action would be required to eliminate tariff filing requirements but investigations of the savings potential and appropriateness of such actions could be conducted on ICC's administrative authority.

An ICC official in the ICC Chairman's office stated that ICC will perform a reorganization study to consider all other PPSSCC recommendations, that is, those that call for a study to establish long-term goals and reduce personnel levels. However, the emphasis of the study plan is on staffing levels and reorganizing ICC and does not include an evaluation of ICC's tariff filing system.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

PPSSCC cost savings assume the elimination of all tariff filing requirements. PPSSCC recognized that ICC will still receive complaints that carriers are not observing ICC statutes or regulations with respect to rates. These complaints will require ICC to adopt procedures to collect the necessary rate data needed to resolve the bulk of these complaints by summary procedures (rather than formal proceedings). PPSSCC estimates that three quarters of the budget of the Bureau of Traffic could be saved, resulting in a three-year saving of $11.2 million. PPSSCC provides no explanation of its basis for the savings projection and without an evaluation of the tariff filing system, GAO has no basis to comment on these savings.

V. RELEVANT GAO REPORT

None.

VI. GAO CONTACT

Oliver Krueger 275-6111

BUS-CAB 3: FITNESS DETERMINATIONS

I. PPSSCC ISSUE AND SAVINGS

Can the current responsibilities of the Civil Aeronautics Board (CAB) to assess the financial stability (financial fitness) of airlines, and of the Federal Aviation Administration (FAA) to ensure that airlines meet FAA's safety standards (safety fitness), be consolidated?

Sixty percent of the effort currently expended by CAB on financial fitness determinations could be eliminated. Savings from this issue are $0.4 million in Year 1, $0.4 million in Year 2, and $0.5 million in Year 3 for a total 3-year savings of $1.3 million.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATION

Public Law 98-443, enacted October 4, 1984, transferred CAB's financial fitness functions to the Department of Transportation (DOT) upon CAB's sunset (termination) on January 1, 1985. This legislation was needed to eliminate uncertainty over the future for certain functions not specifically provided for in the Airline Deregulation Act of 1978.

Although the Congress thus specifically provided for the continuation of CAB's financial fitness review by DOT, it did not specify whether the function might be consolidated with FAA's safety fitness function, as recommended by PPSSCC.

GAO does not believe the PPSSCC presents an argument sufficient for concluding that the financial and safety functions should be consolidated in FAA.

While CAB and FAA fitness activities are somewhat related, FAA's financial and managerial concerns are limited primarily to air carrier safety, while CAB's former role in conducting broad and extensive evaluations of air carrier financial and managerial capacity is aimed at protecting consumers against financially unstable and unscrupulous carriers.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

As indicated above, CAB's financial fitness functions were transferred to DOT through legislation rather than PPSSCC's recommended adminstrative approach. Without such legislation, the future administration and preservation of these functions would have remained uncertain.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

While on the surface there would appear to be merit in PPSSCC's cost saving estimates, GAO believes the underlying assumptions may be inappropriate. The PPSSCC estimated savings of 60 percent through consolidation of CAB and FAA fitness reviews implies that extensive overlap currently exists between the fitness activities of these agencies. As noted above there are distinct characteristics of a financial and safety fitness review. Since the PPSSCC estimates did not document the overlapping activities to be eliminated through consolidation, GAO was unable to assess the basis for PPSSCC estimated savings.

V. RELEVANT GAO REPORT

GAO/RCED-84-154 Legislation Needed to Clarify Future of Consumer Protection and Federal Preemption After the Civil Aeronautics Board Sunsets (June 13, 1984)

VI. GAO CONTACT

Oliver Krueger 275-6111

BUS-CAB 4: ESSENTIAL AIR SERVICE SUBSIDY PROGRAM

I. PPSSCC ISSUE AND SAVINGS

The PPSSCC questioned how cost-effective the essential air service subsidy (EAS) program is and whether the program can be improved through cost-sharing?

Essential air service subsidy criteria included in the Airline Deregulation Act of 1978 (ADA) have resulted in more cost-effective management of the essential air service subsidy program. PPSSCC claimed that implementation of cost-sharing based upon a 1980 Civil Aeronautics Board (CAB) and Department of Transportation (DOT) proposal would reduce federal subsidies for small community air service by $9.0 million in Year 1, $9.9 million in Year 2, and $10.9 million in Year 3, for a total three-year savings of $29.8 million.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATION

GAO agrees that conceptually it is economically appropriate, as the PPSSCC recommends, for state and local governments to share the cost of federally subsidized air service since such air service was intended to benefit the community as a whole. However, it may not be appropriate to restructure the essential air service program at this time, because it would amount to federal repudiation of its commitment of 1978 to guarantee local air service through 1988. Furthermore, many states and local communities do not support cost-sharing, or might have difficulty funding such a program. However, if the Congress considers extending the essential air service program beyond 1988, GAO believes that consideration should be given to adopting some form of state/local cost sharing. In any event, before a cost-sharing program is adopted, an economically equitable basis for allocating costs to users should be developed, including appropriate decisions on who should bear the cost of subsidized air service, and how costs should be allocated.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees that legislation would be required to implement state/local cost-sharing under the EAS program. Both CAB and DOT believe that it may not be feasible to institute a cost-sharing program before 1988 because of state/local funding difficulties, and the congressional commitment to guarantee local air service until 1988. There presently is no legislative effort to initiate cost-sharing under the EAS program.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

While we were unable to take specific exception to the projected savings because of limited data on the basis and methods used by PPSSCC, GAO believes that federal program cost-allocation decisions should be based on sound economic considerations. There is no indication that the PPSSCC estimated cost savings reflect federal administrative costs which would be incurred in implementing a cost-sharing program.

V. RELEVANT GAO REPORT

GAO/RCED-83-97 More Flexibility Eligibility Criteria Could Enhance the Small Communities Essential Air Service Subsidy Program (May 18, 1983)

VI. GAO CONTACT

Oliver Krueger 275-6111

SBA 5: OTHER DISASTER LOAN PROGRAM IMPROVEMENTS

I. PPSSCC ISSUE AND SAVINGS

Can the Small Business Administration (SBA) reduce the cost of the disaster loan program by eliminating disaster loans to businesses and individuals who have credit available elsewhere, and by permanently excluding farm loans from the program?

PPSSCC estimated cost savings from discontinuing disaster loans to businesses and individuals with credit available elsewhere at $3 million over 3 years. If the SBA were to permanently exclude farmers from eligibility under the disaster loan program, there would be no direct savings since these loans, if justified, would be made by the Farmers Home Administration (FmHA).

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC recommended that (1) SBA discontinue disaster loans to businesses and individuals with credit available elsewhere and (2) SBA permanently exclude farmers from the SBA disaster loan program, since they are already covered by Department of Agriculture disaster programs. GAO is in basic agreement with these recommendations.

In 1978, GAO evaluated how well FmHA and SBA coordinated their farm disaster assistance program (GAO/CED-78-118). GAO reported that while the two agencies were serving essentially the same target population, there were many differences between the two agencies' programs which not only made it difficult for them to effectively coordinate their efforts but also resulted in confusing and inequitable situations for farmers. The most significant difference reported by GAO was that FmHA had a credit-elsewhere test--it did not make loans to farmers who could get credit elsewhere--while SBA would make loans regardless of whether a farmer could obtain credit elsewhere.

GAO recommended that the Congress decide whether or not it should be the policy of the Federal Government to make disaster assistance loans to farmers who are able to obtain credit from non-Federal sources. Once this decision is made, GAO recommended that the Small Business Act be amended so that SBA is no longer authorized to make disaster loans to farmers and, if necessary, that appropriate changes be made to FmHA's enabling legislation.

GAO further recommended that if the Congress did not amend the Small Business Act in the above manner, that the Congress require FmHA and SBA to establish a task force

charged with the responsibility of determining what specific changes should be made to the two agencies' disaster loan programs to achieve consistency between the programs and to avoid overlapping and duplicating efforts by the agencies.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

Implementation of the PPSSCC recommendations would require legislation. SBA, however, appealed the recommendation requiring credit elsewhere to OMB on the basis that the "political problems" that would be created were not worth the estimated savings. OMB concurs with SBA's position.

While SBA fully supports the PPSSCC recommendation to exclude farmers from its disaster loan program, the Congress has made it clear in the past that it wants farmers to be eligible to receive disaster assistance through both SBA and FmHA programs. In previous years the Congress has provided that both FmHA and SBA may provide disaster assistance to farmers regardless of whether the farmer can obtain credit elsewhere.[1] Public Law 98-270, dated April 18, 1984, is the most recent law to address this issue and provides that for farmers without the ability to obtain credit elsewhere the borrowing rate SBA can charge cannot exceed 4 percent per year. In cases where a farmer is able to obtain credit elsewhere, the maximum rate that SBA can charge on a disaster loan is 8 percent.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO believes that the PPSSCC may have underestimated the potential savings that would accrue if farmers with credit available elsewhere were precluded from receiving disaster loans. The PPSSCC's $3 million savings estimate is based only on expected credit losses but does not include the interest rate subsidy from federal borrowing at rates above the 8 percent maximum allowable rate that can be charged on disaster loans. GAO has no basis to estimate the cost of this subsidy and the corresponding savings that would result if farmers with credit available elsewhere were precluded from receiving disaster loans. With respect to excluding farmers from SBA's disaster loan program, GAO agrees with the PPSSCC's conclusion that no direct savings to the federal government would result because, if justified, the loans would be made by FmHA.

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[1]P.L. 96-302; P.L. 97-35; and P.L. 98-270.

V. RELEVANT GAO REPORTS

GAO/CED-78-118 Difficulties in Coordinating Farm Assistance Programs Operated by Farmers Home Administration and Small Business Administration (May 25, 1978)

VI. GAO CONTACT

John Luke 275-6111

SBA 6: REDUCTION OF GUARANTEES ON SURETY BONDS

I. PPSSCC ISSUE AND SAVINGS

Can the Small Business Administration (SBA) reduce losses in its Surety Bond Program by reducing its percentage guaranty from 90 percent to 85 percent?

PPSSCC estimated cost savings from reducing the guaranty percentage at $29.7 million over 3 years.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

Under the Surety Bond Guarantee Program, SBA guarantees that it will cover up to 90 percent of a surety company's losses on bonds that contractors could not obtain without the guarantee. GAO agrees that implementation of the PPSSCC recommendation on reducing the guaranty percentage would reduce SBA's losses in its Surety Bond Guarantee Program. The reduced losses would result from (1) lower SBA payout on defaulted contracts (85 percent instead of 90 percent on a claim) and (2) greater scrutiny by surety companies when considering contractor applications for bonding. Surety companies would likely impose more stringent requirements on contractors since the companies loss exposure would be increased when the guaranty is reduced from 90 percent to 85 percent. For example, sureties might require contractors to have a stronger financial position before they would execute bonds even with the SBA guarantee.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

This recommendation can be implemented through administrative action. GAO believes the recommendation is feasible and that its implementation might preclude certain marginal contractors from obtaining required bonding. SBA has drafted proposed regulations consistent with the PPSSCC's recommendation. SBA will publish the draft regulations for public comment before they are finalized.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO has no basis to assess the PPSSCC's total dollar savings estimate. SBA's losses should be reduced both as a result of the lower payment (85 percent) and because it is likely that surety companies, given their increased exposure to losses, would be more selective in bonding contractors.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

John Luke 275-6111

BUS-FMC 1: COMMISSION HEADCOUNT AND STAFFING

I. PPSSCC ISSUE AND SAVINGS

"Can the Federal Maritime Commission (FMC) improve its management practices and reduce its staff?

Savings resulting from the Task Force recommendation to reduce staffing levels by 25 positions would be $0.7 million in Year 1, $1.1 million in Year 2, and $1.3 million in Year 3 for a total 3-year savings of $3.1 million."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

Twelve of the 25 staff reductions recommended by the PPSSCC were directly related to its recommendation to upgrade computer facilities in FMC headquarters and in regional offices. GAO pointed out in a report on the FMC (GAO/CED-80-20, January 18, 1980), that an upgraded computer system could provide better and more timely information to FMC users. This GAO recommendation was one of a number of recommendations directed towards overall management improvements at FMC. Therefore, GAO agrees with the recommendation (BUS-FMC 1-1) that FMC should upgrade and expand its computer facilities. However, GAO has no basis for an opinion on the merits of the PPSSCC position that the upgrading of computer facilities should result in the reduction of 12 staff as estimated by PPSSCC since GAO did not address staff reductions associated with the upgrading of computer facilities in our report.

GAO has no basis to comment on the field office reviews and staffing level cuts recommended by the PPSSCC. Also, GAO has no basis for opinion on the merits of the PPSSCC position that 13 staff reductions should be made from field office staff cuts and workload reductions.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

FMC has taken administrative action to reduce its staff and to upgrade its computer system. FMC closed its Mid-Atlantic district office in Washington, DC in March 1983, and reduced staffing in the Great Lakes District office by fifty percent by the end of 1983. FMC's field office staff which totalled 44 at the time of PPSSCC's analysis had declined to about 36 staff by mid-1984. GAO agrees with the PPSSCC that FMC has management authority to update and expand its computer system.

FMC has installed modern data-processing equipment in its Washington headquarters and in its New York, San Francisco, and New Orleans regional offices. This equipment has data communication capabilities which will assist in

investigations. Data can be transmitted to and from FMC headquarters and the three major regional offices.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO has no basis to evalute the merits of any of the staff reductions cited by the PPSSCC because GAO has done no analysis of staff reductions attributable to projected workload reductions. PPSSCC projected 12 staff replaced by automation, and 13 others due to workload reductions. Staff reduced by projected workload reductions involve 6 administrative law judge positions, 4 staff at closed regional offices, 1 staff in the Office of Energy and Environmental Impact, and 2 headquarters staff.

GAO also has no basis to evaluate the merit of the PPSSCC estimates of average wage costs, benefits and associated expenses. These expense estimates were used by the PPSSCC to estimate the total three-year savings associated with PPSSCC's staff reduction recommendations.

V. RELEVANT GAO REPORT

GAO/CED-80-20 Essential Management Functions at the Federal Maritime Commission Are Not Being Performed (Jan. 18, 1980)

VI. GAO CONTACT

Oliver Krueger 275-6111

I. PPSSCC ISSUE AND SAVINGS

"Does the Uniform Tire Quality Grading System (UTQGS) program of the National Highway Traffic Safety Administration (NHTSA) serve any purpose?"

Cost savings from elimination of this program are estimated at $3.3 million over the next 3 years. In addition, retail prices to the public may be reduced by the industry's cost of compliance, estimated at $11 million annually.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATION

GAO has no basis for an opinion on the PPSSCC's recommendation that "NHTSA should propose legislative action to cancel the UTQGS program" because it has not evaluated the program. However, GAO believes action would be premature before the Department of Transportation (DOT) completes its ongoing evaluation of the program.

The PPSSCC relied largely on a June 1982 DOT Inspector General's (IG's) draft report as support for its position that the UTQGS program should be cancelled.

The IG's final report, which was issued on September 30, 1982, concluded that the program's legislative intent was not being achieved because tire manufacturers did not assign treadwear grades consistently and most consumers were unaware of the UTQGS and most of those who were aware of it seldom used it. According to the report, these conditions existed because (1) the treadwear requirements did not assure that tire manufacturers assigned uniform treadwear grades, (2) NHTSA had not adequately promoted the UTQGS, and (3) the UTQGS lacked credibility. The IG recommended that NHTSA determine whether technical improvements to the UTQGS were feasible and the costs of improvements were warranted based on a comprehensive study of expected consumer acceptance and use. DOT is evaluating the program to address the issues raised by the IG report.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

On September 9, 1966, the Congress enacted the National Traffic and Motor Vehicle Safety Act of 1966 (15 U.S.C. § 1381 <u>et seq</u>.) requiring the Secretary to develop and publish a uniform quality grading system for motor vehicle tires. When considering the proposed legislation, the Congress received testimony that a significant number of low-cost tires were of poor quality, often having fatal defects and being incapable of performing safely under normal

conditions. With respect to original equipment tires, the Congress received a number of complaints of failures at low mileage. Also, the Congress was concerned about the confused and misleading terminology used in marketing tires such as "1st line," "100 level," or "premium" tire which varied from one manufacturer to another.

As indicated by the PPSSCC, cancellation of the UTQGS program would require legislative action by the Congress to repeal the requirement. As of September 1984, DOT was evaluating the program to determine its appropriateness. Whether DOT proposes legislation to cancel the program, as recommended by the PPSSCC, should depend on the outcome of that evaluation.

GAO believes that before the Congress would enact legislation to cancel the program, DOT will have to demonstrate that the program cannot be effectively implemented at a reasonable cost.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO has no basis to question the PPSSCC's 3-year cost savings estimate of $3.3 million. The PPSSCC attributed that estimate to the DOT/IG's June 1982 report which stated that the cost to the government for enforcement of the program would be $1 million the first year, $1.1 million the second year, and $1.2 million the third year. The PPSSCC stated that these costs were based on NHTSA's estimate of the resources it spends annually to administer the program and conduct compliance testing.

Also the PPSSCC stated that based on NHTSA's estimate tire manufacturers incur additional costs of about $11 million annually to comply with the UTQGS. As noted by the PPSSCC, elimination of these costs to the manufacturers could reduce retail tire prices. GAO believes that it should be noted, however, that such price reductions would depend on the extent to which the manufacturers decide to pass the savings on to consumers.

V. RELEVANT GAO REPORT

None.

VI. GAO CONTACT

Oliver Krueger 275-6111

COMM 9: NBS STAFFING RATIOS

I. PPSSCC ISSUE AND SAVINGS

Are there opportunities for cost savings at the NBS through adjustments in staffing levels that would increase the ratio of technicians to professionals?

PPSSCC estimates that its recommendations could result in savings of approximately $0.5 million in the first year, $1.0 million in the second year, and $2.0 million in the third year.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

PPSSCC recommends that the NBS Director study whether the ratio of full-time technicians to full-time professionals can be increased. It criticizes the current ratio of three or four professionals to one technician by comparison with a typical industrial R&D lab having a one to one ratio. To further reduce costs, PPSSCC makes a second recommendation that students be used to fill the role of technicians and that NBS attract a permanent university presence to its Gaithersburg, Maryland site as a means of improving the physical proximity of university students.

GAO supports the concepts of assessing the ratio of professionals to technicians to increase economy and efficiency,and investigating opportunities for collaboration with universities.

Regarding the ratio of professionals to technicians, some areas, such as computer networks and applied mathematics, may not require any technicians. NBS's role in these areas is to provide expertise and neutral technical review of problems rather than to perform R&D where technicians would be needed.

GAO recognizes that greater use of students in research is economical but believes that the PPSSCC's discussion is limited in proposing more NBS/university arrangements for the single purpose of enlisting students to reduce salary costs. However, a 1981 GAO report on the mission and functions of NBS suggested increased use of joint NBS/university research institutions to enhance the performance of research rather than to provide a pool of students which could serve as a less expensive source of technicians. The Joint Institute of Laboratory Astrophysics in Boulder, Colorado is a collaborative arrangement between NBS and the University of Colorado in physics research. This joint institute concept is widely considered to be an efficient and effective way for a mission agency like NBS to perform certain types of basic research.

III. GAO ASSESSMENT OF IMPLEMENTATION, AUTHORITY, FEASIBILITY, AND STATUS

All three recommendations can be implemented by executive action, but problems may hamper implementation. GAO believes that it would be difficult to establish a university science department at Gaithersburg for the sole purpose of employing students as technicians. As academic and research institutions, universities would be unlikely to view such a proposal favorably unless it was proposed in the context of contributing to research and educational objectives.

In commenting on the recommendation regarding the professional/technician ratio, NBS said that actual ratios of scientists to technicians were within the range of the PPSSCC's recommendations. NBS recomputed the professional to technician baseline by separating out employees in two programs (the Institute for Computer Science and Technology and the Center for Applied Mathematics) which did not lend themselves to such ratios. GAO believes that this recomputation is valid given the nature of the work done by the two programs.

With regard to the recommendation to use low-cost university students, NBS pointed out that 200 such students were currently employed by NBS and that the Bureau planned to continue university contacts at all levels to insure a steady flow of university students to NBS. NBS stated that establishing a university presence was addressed through discussions with the University of Maryland to extend cooperation and by continuing to pursue graduate research fellowships and university cooperative programs.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC estimates that savings of about $2 million per year could be achieved through staffing adjustments that would change the ratio of full-time professionals to technicians from five to one to three to one. PPSSCC then applied "best guess implementation lead times" to yield savings of $0.5 million in the first year, $1.0 million in the second year and $2.0 million in the third year.

Without an analysis as to whether the quality of NBS research mission would be maintained by such a shift in ratio, GAO cannot comment on whether the "net savings" might be offset by hidden costs such as the loss of in-house expertise.

V. RELEVANT GAO REPORTS

GAO/CED-81-39	Information on Mission and Functions of the National Bureau of Standards (Apr. 22, 1981)
GAO/CED-80-49	National Bureau of Standards--Answers to Congressional Concerns (Feb. 2, 1980)
GAO/CED-79-29	National Bureau of Standards--Information and Observations on its Administration (Mar. 21, 1979)

VI. GAO CONTACT

Herbert McLure 275-7783

COMM 7: PTO PLANNED STAFF INCREASES

I. PPSSCC ISSUE AND SAVINGS

Can the Patent and Trademark Office (PTO) reduce the number of new examiners it plans to hire in FY 1983, FY 1984, and FY 1985 and still reduce average pendency time from 24 months to 18 months?

According to PPSSCC, such a reduction would save about $2.4 million in the second year and $7.0 million in the third year.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC review of the Patent and Trademark Office consisted of a critique of PTO's "Plan 18/87", which would increase the number of patent examiners from its FY 1982 level of 1,035 to a level of 1515 by FY 1985. The purpose of "Plan 18/87" is to reduce the average time of patent pendency from 24 months to 18 months by the end of FY 1987 without a deterioration in quality. Patent pendency is the period of time from the filing of an application to the date the patent is issued or the application abandoned. According to PPSSCC, the PTO mistakenly assumed that the productivity of experienced examiners does not erode substantially when they are required to informally assist the large influx of new talent. If there is an erosion of productivity, then pendency time will still be increasing despite the number of new hires. According to PPSSCC, PTO would not need to hire new examiners if it had an industrial engineer on its staff responsible for work simplification and improvements in scheduling and workflows. The PPSSCC recommends that the Commissioner of Patents and Trademarks reduce PTO's hiring goals beginning in FY 1984 as well as immediately hire one or more industrial engineers or seek outside advice PTO's methods and scheduling practices. PPSSCC would reduce PTO's planned hires of 180 new examiners in FY 1984 and 215 examiners in FY 1985 to 80 in each year to cover attrition.

GAO has no basis on which to comment on the specific PPSSCC recommendations but has issued numerous reports which address the need for comprehensive workforce planning within the federal government and propose various techniques for planning workforce needs. Although GAO cannot comment directly on the PPSSCC's specific recommendation for PTO to hire fewer examiners than it originally planned, GAO work on productivity and personnel issues would support the use of industrial engineers.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees that the two PPSSCC recommendations can be implemented administratively but notes that the PTO is well underway in its implementation of "Plan 18/87." The plan was initiated through 1982 appropriated supplemental funding. In FY 1985 appropriation hearings, PTO rejected the first recommendation stating that PPSSCC's proposed modification to the "18 by 87" plan would "make it impossible to achieve an 18 month average pendency time by 1987."

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC estimates savings of $2.4 million in the second year and $7.0 million in the third year. This estimate is based on the use of $25,000 per year as the cost of an examiner multiplied by the 100 and 135 "person years" saved in FY 1984 and FY 1985 if the PTO hired only 80 examiners in each of the two years as proposed by PPSSCC. An original estimate of $2.7 million savings in year 2 is rounded to $2.4 million in order to absorb an estimated cost of $300,000 for industrial engineering support.

GAO has not evaluated the relative effectiveness of increased hiring versus a stable workforce to which industrial engineering principles have been applied and therefore cannot comment on PPSSCC's savings estimates.

V. RELEVANT GAO REPORTS

GAO/FPCD-81-54	Improving the Credibility and Management of the Federal Work Force Through Better Planning and Budgeting Controls (July 17, 1981)
GAO/FPCD-81-4	Federal Work Force Planning: Time for Renewed Emphasis (Dec. 30, 1980)
GAO/FPCD-80-36	A Guide and Checklist for Forecasting How Many Workers Government Agencies Need (Jan. 28, 1980)

VI. GAO CONTACT

Herbert McLure 275-7783

I. PPSSCC ISSUE AND SAVINGS

Are there cost savings opportunities at the National Bureau of Standards through:

--reductions in program activity more appropriate to the private sector;

--increases in private sector support for program areas which benefit selected industries; and

--elimination of project activity in which potential benefits do not justify the costs involved?

PPSSCC estimates that its recommendations could result in savings of approximately $10.0 million in the first year, $15.0 million in the second year and $20.0 million in the third year.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

PPSSCC believes that a private sector panel could assess the appropriateness of NBS involvement in different projects. PPSSCC also asks the NBS director to investigate potential for cost reduction and private sector support in a number of areas.

These recommendations are based on PPSSCC findings that there is some confusion among officials in OMB, the Office of Science and Technology Policy and the Department of Commerce concerning the expansion of NBS program activity beyond traditional areas of measurement science. This confusion is seen as resulting from the lack of an independent review of the appropriateness of individual projects.

Three GAO reports on NBS agree with the PPSSCC's comment on the breadth and diversity of the Bureau's mission. NBS performance of all the responsibilities assigned to it has been affected by funding problems as well as difficulties in prioritizing work. NBS' current policy is to examine requests by other agencies for work to see if it could be done elsewhere.

III. GAO ASSESSMENT OF IMPLEMENTATION, AUTHORITY, FEASIBILITY, AND STATUS

The establishment of a private sector evaluation panel with discretion to evaluate research projects, as suggested in these recommendations, is a legitimate executive action within applicable statutory limits. However, reduction or

elimination of programs could not take place without congressional action.

The Department of Commerce did not establish a new Project Evaluation Committee (the subject of the first two recommendations) but current evaluation panels and the Visiting Committee reported on NBS programs to the Secretary in July 1984. The Visiting Committee, established by NBS's organic act to provide an objective, expert review of the agency, advises the Secretary of Commerce on NBS operations. The Department cites the 1984 budget review and proposed elimination of selected research areas and increased user fees in other areas as implementation of the third recommendation. GAO believes that NBS' current evaluation system and budget review are adequate without adding a new evaluation panel as suggested by PPSSCC.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

PPSSCC bases its three year savings estimate of $45.0 million on proposed reduction of NBS programs in eight areas. GAO believes the PPSSCC estimate is overstated because the base figure from which savings are derived does not list how much is performed for other agencies. According to NBS policy, NBS performs work for other agencies only when agencies cannot get work done elsewhere in government or the private sector. Therefore, if NBS did not perform this reimbursable work the other agencies could not get the work done or would have to pay even more to build the necessary research facility and acquire the expertise.

V. RELEVANT GAO REPORTS

GAO/CED-81-39 Information On Mission and Functions of the National Bureau of Standards (Apr. 22, 1981)

GAO/CED-80-49 National Bureau of Standards--Answers to Congressional Concerns (Feb. 2, 1980)

GAO/CED-79-29 National Bureau of Standards--Information and Observations on Its Administration (Mar. 21, 1979)

VI. GAO CONTACT

Herbert McLure 275-7783

CONG 2-8: THE JUSTICE DEPARTMENT SHOULD SEEK LEGISLATION TO END FEDERAL FUNDING FOR THE REGIONAL INFORMATION SHARING SYSTEMS

I. PPSSCC ISSUE AND SAVINGS

Under Regional Information Sharing System (RISS) programs, state and local jurisdictions share intelligence information on criminal activity. Funding had been provided by the Law Enforcement Assistance Administration until that agency disbanded several years ago. The Justice Department concluded that if the program were worthwhile, state and local governments should be willing to help pay for it. Since they were not, Justice opposed assuming the entire financial burden. The Senate Appropriations Committee Report on the FY 1984 Justice Appropriations Bill directs the agency to spend $9.9 million on seven regional information programs.

If this program were eliminated, the 3-year savings are estimated at $32.8 million: $9.9 million in the first year, $10.9 million in the second year; and $12.0 million in the third year.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO has not taken a position on the feasibility of having state and local governments assume funding for this program. GAO's recent review showed that the three RISS projects GAO audited have resolved management weaknesses identified in previous Justice Department audits. The projects serve a state and local law enforcement community and Congress continues to fund these projects over the Justice Department's objections.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC recommends that the Justice Department seek legislation to end federal funding of the systems. In GAO's opinion, no special legislation is needed to end this program. No administration requests for funding have been submitted to Congress, yet Congress continues to add funds to Justice's budget each year. As long as Congress believes there is a valid need for supporting this program, it will remain.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The Estimated savings are valid if the program were eliminated.

V. RELEVANT GAO REPORTS

GAO/GGD-85-17	Regional Information Sharing Systems (Nov. 5, 1984)
GAO/GGD-81-36	The Multi-State Regional Intelligence Projects--Who Will Oversee These Federally Funded Networks? (Dec. 31, 1980)

IV. GAO CONTACT

Arnold Jones 275-8389

COMM 4: EDA UNLIQUIDATED OBLIGATIONS

I. PPSSCC ISSUE AND SAVINGS

What administrative steps can be taken by the Economic Development Administration (EDA) to terminate grants for projects which are delayed or inactive?

PPSSCC estimated that termination of such grants should result in cost avoidance of approximately $60 million, including $20 million in FY 1983, $20 million in FY 1984, and $20 million in FY 1985.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

Since inception in 1965, EDA has awarded over $9.5 billion in grants. Of this amount, about $6.0 billion was obligated in fiscal years 1976 and 1977 under a special anti-recessionary program. The remaining $3.5 billion was obligated under the Public Works Program. As of April 23, 1982, EDA had unliquidated obligations totaling $121 million on 783 projects that were 2 years old and older and which had no disbursements. Of these, 79 projects, with unliquidated obligations totaling $26.6 million, were 5 years old and older.

Although EDA has the authority to terminate grants for projects that did not meet the implementation schedule set forth in the grant agreement, historically EDA had never done so. PPSSCC recommended that EDA issue termination letters to all grantees which had no disbursements and which did not to meet one or more terms of the grant agreement.

GAO agrees with PPSSCC's recommendation. Such terminations would be especially applicable in instances where local conditions may have changed to the extent that EDA cannot be assured that the long-delayed projects would accomplish their originally intended objectives if they were now completed. In a 1977 report (GAO/CED-77-86), GAO examined regular public works projects that experienced extended delays in getting under construction and found that many projects had to be redesigned because of inflation and the projects could not be completed with available funds. Such actions could have reduced the scope and the potential economic impact of the projects.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

EDA agreed with PPSSCC's recommendation and has taken administrative action to reduce unliquidated obligations on projects which were delayed two or more years, as well as other projects. The Department of Commerce's Office of

the Inspector General (IG) has closely monitored EDA's project deobligation efforts. The IG's records show that from April 23, 1982, through September 30, 1984, EDA reduced (mostly through project terminations) its unliquidated obligations on the universe of 783 projects from $121 million to about $16 million, or about 87 percent.

IV. GAO ANALYSIS OF SAVINGS ESTIMATES

PPSSCC estimated that of the $120 million of seriously delayed projects, $40 million will not be terminated for program or political reasons. Of the remaining $80 million that will be terminated, PPSSCC estimated that about $60 million represent true cost avoidance, assuming that projects totaling $20 million or less would not have been started anyway. PPSSCC, therefore, estimated that if EDA implements its suggestions, savings of about $60 million will result.

GAO believes that EDA's project termination actions have resulted in cost avoidance, but it has no basis for determining the amount of such savings. To do so would require knowledge on which projects would have gone forward into construction had EDA not taken the termination actions.

V. RELEVANT GAO REPORTS

GAO/CED-77-86 Changes Proposed for the Funding of Public Works Projects Would Expedite Economic Development and Job Opportunities (July 7, 1977)

VI. GAO CONTACT

John Luke 275-6111

ASSET 14: PRIVATE SECTOR INCREASED PARTICIPATION

I. PPSSCC ISSUE AND SAVINGS

"Should private sector participation in Export-Import Bank (Eximbank) and Rural Electrification Administration (REA) direct loans be increased?" PPSSCC stated that over three years, $1,879 million in Eximbank and REA loans could be made by the private sector, thereby saving REA $15.2 million in interest cost and reducing Eximbank and REA processing cost $6 million.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

REA made about $850 million in direct loans in fiscal year 1984 to rural electric distribution cooperatives. These loans are used to finance electric distribution facilities. The Eximbank's financing programs, which facilitate and aid the export of U.S. goods and services, includes direct loans, financial guarantees, and insurance. For fiscal year 1984, Eximbank direct loans were limited to $3.8 billion.

GAO agrees that private sector financing should be encouraged in lieu of direct federal loans wherever feasible. This would be consistent with the government's general policy of avoiding competition with the private sector.

PPSSCC would shift 20 percent of REA direct loans to the private sector. In a 1980 report (GAO/CED-80-52), GAO stated that many REA electric distribution borrowers had the financial strength to qualify for private sector loans. Although some of these borrowers have to charge relatively high electric rates to maintain their financial strength, GAO reported that others have low costs and could absorb the increased interest cost from private financing and still charge electric rates comparable to those charges by neighboring investor owned utilities. GAO stated, however, that REA did not have criteria to determine which borrower could qualify for private sector loans.

In addition, GAO pointed out that REA's loan making criteria does not adequately correlate the type and/or amount of subsidized (low-interest-rate) loan REA will provide with the borrowers' needs. For example, some borrowers with high costs and high electric rates received the same or a lower subsidy than those received by borrowers that had low costs and low electric rates. GAO concluded that REA needed new loan criteria to better correlate the type and amount of subsidized loan to the borrower's individual need for assistance.

PPSSCC also recommends shifting 20 percent of Eximbank's direct loans to the private sector. PPSSCC stated that a typical Eximbank direct loan package consists of a 15 percent cash investment by the borrower, 42.5 percent in Eximbank direct loans, and 42.5 percent in private financing. It also stated that seven firms have received about two-thirds of the benefits from Eximbank's direct loans and that each of these firms was a Fortune 500 company whose credit worthiness cannot be questioned.

GAO believes that while the total amount of Eximbank financing could be arbitrarily reduced, the PPSSCC recommendation does not address the most important factor that influences the need for Eximbank financing. Competition from other countries' export financing programs is a key determinant of the level of Eximbank financing. In addition, the PPSSCC justification for reducing Eximbank's loan level is confusing. For example, the PPSSCC recommendation cites the credit worthiness of major U.S. exporters as justification for cutting direct loans. However, these firms are generally not borrowers from Eximbank. The credit worthiness of foreign importers in countries who buy U.S. exports is the relevant factor in determining the need for government supported export financing.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

Although PPSSCC believes legislation is not necessary to shift Eximbank and REA direct loans to the private sector, GAO believes legislation would be useful, as a minimum, to clarify that the Congress concurs with such shifts. GAO recommended in GAO/CED-80-52 that REA develop criteria to determine which borrowers qualify for loans from private sources. However, because of congressional interest in this area, GAO subsequently urged the Congress in testimony presented in April 1984 to reexamine and clarify REA's program objectives and the criteria to be used to determine the level of assistance (subsidy) to be provided and the intended beneficiaries to accomplish the program's objectives.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

PPSSCC's 20 percent shift in REA direct loans to the private sector seems reasonable. GAO found that as of December 1981, 193 of 921 REA cooperative borrowers, almost 21 percent, had the financial strength to borrow on their own. Although the number of financially strong cooperatives was actually larger than 193, these 193 cooperative borrowers all had lower electric rates than the rates charged by investor-owned utilities.

Based on a 20 percent shift, PPSSCC estimated that REA could realize a 3-year savings of $15.2 million in interest costs but GAO believes this estimate is understated. PPSSCC's estimate covers only the first year's interest savings on loans made in any one year during the 3-year period when in actuality interest savings would accrue every year over the life of the loans made in any one year.

Based on its budget assumption, the PPSSCC estimated that cash savings of $1,674 million over 3-years would be generated by the diversion of Eximbank loans to private sector financing and by reduction of the overall level of Eximbank's participation in loan packages. The projected budget savings are the result of an assumed 20 percent cut in loan activity. However, these savings are in addition to a forecasted 15 percent annual reduction in Eximbank loans. In all, Eximbank lending would be reduced by a total of about 35 percent. This assumes that the private sector would replace this 35 percent reduction in Eximbank lending and that there would be no reduction in turn in U.S. exports, related employment, and tax revenues. If this assumption does not hold, there would be budget consequences offsetting the projected savings.

PPSSCC also estimated a $6 million 3-year savings in Eximbank and REA processing cost. GAO has no basis for commenting on these savings because the PPSSCC estimate does not contain sufficient detail as to how the estimate was prepared.

V. RELEVANT GAO REPORTS

GAO/CED-80-52	Rural Electrification Administration Loans to Electric Distribution Systems: Policy Changes Needed (May 30, 1980)
Testimony	The Integrity of the Rural Electrification and Telephone Revolving Fund by John Luke before the Subcommittee on Agricultural Credit and Rural Electrificaton, Senate Committee on Agriculture, Nutrition, and Forestry, (Apr. 12, 1984)
GAO/ID-81-48	To Be Self-Sufficient or Competitive? Eximbank Needs Congressional Guidance (June 24, 1981)

VI. GAO CONTACT

John Luke 275-6111

CHAPTER 7

FEDERAL CIVILIAN PERSONNEL MANAGEMENT

The PPSSCC identified various methods to reduce the federal costs of compensating about 2.2 million civilian employees in the federal government (excluding about 660,000 postal workers) and 1.9 million civilian retirees and survivors. The pay and benefits for employees cost about $76 billion annually, and retirees and survivors received about $21 billion from the civil service retirement fund in 1983.

GAO examined 45 PPSSCC issues concerning the practices and policies governing federal employee pay and benefits, productivity, and personnel management. It found overall merits in 27 of these issues, questioned the merits of 14, and took no position on four. The issues which GAO generally supports concern changing the process for setting federal pay rates, improving productivity, improving the accounting for and funding of the civil service retirement system, and bringing the Foreign Service retirement system in line with the civil service system. The PPSSCC estimated that 3-year savings for the 27 issues which GAO supports would amount to about $20.8 billion. While GAO believes the issues have merit, at most they would produce about one-half the savings that were estimated by the PPSSCC. Twenty-two of the 45 issues would require legislation to be fully implemented.

PER 6: PAY COMPARABILITY

I. PPSSCC ISSUE AND SAVINGS

Is pay comparability, as it is now structured, a sound approach for the federal sector?

The PPSSCC believes its five modifications to the process for determining federal white-collar pay would save about $4.1 billion over 3 years.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

While GAO does not agree with the PPSSCC's savings estimate, GAO has made a number of studies of the General Schedule pay comparability process which have shown that many of the PPSSCC recommended refinements were needed. Some of these refinements were included as part of both the Carter and Reagan Administrations' pay reform legislation, which Congress did not enact.

GAO agrees with the PPSSCC that the federal government, with its nationwide, white-collar salary rates, overpays in certain labor markets and underpays in others; and it supports the PPSSCC's recommendation to establish locality pay systems for certain white-collar employees. GAO has also recommended including state and local governments in the pay comparability surveys. This change would help broaden the comparability processes to include all major segments of the nonfederal sector. Furthermore, GAO believes there is merit in the PPSSCC's recommendations to expand the pay survey to smaller size establishments and to make the occupational coverage more representative of both the federal government and the nonfederal job structure. To a great extent, the survey has already been expanded over the years to include additional jobs, broader industry coverage, and smaller establishments. Finally, GAO agrees with the PPSSCC that the survey does not have to be conducted every year to determine comparability. GAO has recommended that off-year pay adjustments could be based on an appropriate statistical indicator, such as the Bureau of Labor Statistics' Employment Cost Index.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC stated most of its recommendations will require legislative action. However, several administrative changes to the pay comparability process have been

made, and additional changes are planned for 1985 and 1986. The planned administrative changes to the pay-setting survey process include: reducing the present minimum size of private sector establishments surveyed; surveying the non-profit sector and other presently excluded industries; using the Bureau of Labor Statistics' Employment Cost Index in the pay-setting process; and surveying state and local governments for informational purposes as a step toward eventual legislative reform to include this information in the pay-setting process.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO does not agree with PPSSCC that the modifications will result in a $4.1 billion savings over the next 3 years. Although the PPSSCC's recommendations would improve the means by which pay comparability is determined, there is no evidence to show that the PPSSCC modifications would be sufficient to offset the current 18 percent pay lag between federal and private sector salaries that has resulted from pay limits imposed over the last 7 years.

V. RELEVANT GAO REPORTS

GAO/FPCD-82-4	Proposal to Lower the Federal Compensation Comparability Standard Has Not Been Substantiated (Jan. 1982)
GAO/FPCD-81-50	Federal Pay-Setting Surveys Could Be Performed More Efficiently (June 1981)
GAO/FPCD-76-9	Federal White-Collar Pay Systems Need Fundamental Changes (Oct. 1975)

VI. GAO CONTACT

Rosslyn Kleeman 275-6204

PER 7: BLUE-COLLAR PAY COMPARABILITY

I. PPSSCC ISSUE AND SAVINGS

Is the Federal Wage System for blue-collar employees designed and administered so that the principle of pay comparability is being achieved as intended?

If true comparability were achieved, the PPSSCC estimates that a savings of $1.8 billion could be achieved in the first 3 years of implementation.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC focuses on basic problems with the federal blue-collar pay system, which GAO had previously identified. These include

--using an inappropriate benchmark to establish and adjust the federal hourly rate so that most federal blue-collar employees are paid 8 percent to 12 percent more than the average blue-collar employee in the private sector;

--using out-of-area wage data for setting local pay rates;

--using night-shift differentials that are higher than prevailing practices;

--not surveying the pay systems of state and local governments;

--using dual rules and dual calculations to compute overtime payments.

GAO supports the PPSSCC recommended changes to the blue-collar pay system. The PPSSCC estimated savings will not be realized immediately as discussed in Section IV below.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

As recognized by the PPSSCC, all the elements of their proposal, which Congress and present and past administrations have already considered, would require legislative action to implement. The administration did not seek legislative authority to implement the PPSSCC recommendations in the Fiscal Year 1985 budget.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC's estimated an annual 6-percent reduction in prevailing usage rates totalling $1.8 million over 3 years. In the first year, however, these savings cannot be realized because federal pay rates lag an average 9.37 percent behind the private sector in 134 wage areas, due to congressional pay limitations on blue-collar wages over the last several years. Once the system has compensated for this pay lag, however, the PPSSCC's estimate appears reasonable based on Congressional Budget Office estimates.

V. RELEVANT GAO REPORTS

GAO/FPCD-78-60	Federal Compensation Comparability: Need for Congressional Action (July 1978)
GAO/FPCD-76-95	How the Fair Labor Standards Act Affects Federal Agencies and Employees (Apr. 1977)
GAO/FPCD-75-122	Improving the Pay Determination Process for Federal Blue-Collar Employees (June 1975)

VI. GAO CONTACT

Rosslyn Kleeman 275-6204

PER 8: EXECUTIVE LEVEL AND SENIOR EXECUTIVE SERVICE PAY

I. PPSSCC ISSUE AND SAVINGS

Is the current method of setting pay for the Executive Levels and Senior Executive Service (SES) appropriate, and are there too many SES positions?

The PPSSCC stated that although cost savings could not be projected, they were inherent in the process of attracting and retaining key people capable of effective and efficient management.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC recommended (1) an in-depth study to determine which SES positions warrant bonus eligibility and higher salaries and, (2) after this study has been completed and non-executive positions have been removed from SES, legislation be developed to increase executive salaries and to separate executive and congressional salary levels.

In the past GAO has stated that there have been inadequate pay levels for government executives. GAO advocated the development of an executive pay system that would provide meaningful pay distinctions and incentives for recruiting and retaining top federal executives. GAO recommended in a July 1980 report (GAO/FPCD-80-72) (1) allowing the annual pay increases to take effect for federal executives and (2) discontinuing the practice of linking congressional pay increases to executive level salaries.

GAO has not done any work to assess whether there are too many positions in the SES.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The administration has not initiated a study of executive level positions, nor has it drafted legislation that would be required to implement the PPSSCC recommendations on SES pay increases and pay levels.

Previous efforts to substantially raise federal executive pay levels have not been successful. As a result, pay compression has been a problem in executive

pay levels. SES has provided some relief in the form of performance awards, and legislation enacted in November 1984 will increase the number of executives eligible for such awards.

IV. GAO ANALYSIS OF SAVINGS ESTIMATES

GAO agrees with the PPSSCC that the savings associated with these recommendations cannot be measured.

V. RELEVANT GAO REPORTS

GAO/B-199649	Letter to the Chairman, Subcommittee on Civil Service, Post Office, and General Services, Senate Committee on Governmental Affairs (B-199649), (Nov. 10, 1981)
GAO/FPCD-80-72	Federal Executive Pay Compression Worsens (July 31, 1980)

VI. GAO CONTACT

Rosslyn Kleeman 275-6204

I. PPSSCC ISSUE AND SAVINGS

Should greater use be made of individual incentives for good cash flow forecasting and cash management in the form of presidential, agency, and Senior Executive Service (SES) bonus payments and suggestion awards?

The PPSSCC did not estimate savings potential, but it believes promoting greater individual initiative could have a significant impact on reducing the deficit.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO agrees that employee incentive reward systems have the potential to stimulate improved employee performance which can in turn lead to budgetary savings. The PPSSCC believes that an aggressive approach of granting monetary awards to meet specific government needs could be very effective in increasing performance in a particular area with minimal cost to the government. The PPSSCC recommends the use of this approach to improve performance in cash management and cash flow forecasting by (1) including it in the SES bonus criteria, (2) having the Cabinet-level secretaries and the President make greater use of bonus payments to individuals who make major contributions, and (3) having agencies educate employees on how to recognize cash management savings and encourage employee suggestions.

The PPSSCC recognizes that the government does not have much experience with incentive programs that are focused on improving specific operations. For this reason, GAO believes the recommendations could be enhanced by providing for an evaluation of the program. Also, the recommendations do not establish a control focus to provide program definition and implementing guidance. OPM, working with OMB, is a logical choice for that role.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

As recognized by the PPSSCC, the recommendations can be implemented under the provisions of the Government Employees' Incentive Award Act of 1954 and the Civil Service Reform Act of 1978.

Employee perceptions of the fairness of cash incentive programs could hinder the program. GAO's past work

has shown that incentive award programs did not have high credibility with employees and many employees believed that the motivational goals behind the programs were not being achieved. Essential components of incentive programs that were lacking included linkage with organizational goals and objectives, an objective system for setting employee work expectations and measuring performance, managers with knowledge of how to use the program, timely and relevant awards, and an annual evaluation of program results. These past problems add support to the need for a lead agency to guide the program.

GAO received from OPM information only about recommendations it had already endorsed publicly. No information was provided on the implementation status of the recommendations under this issue.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC did not predict savings because there has been little experience in using incentives for specific application to programs.

V. RELEVANT GAO REPORTS

GAO/GGD-84-32	Testimony of The Comptroller General on the Impact of the Senior Executive Service (Dec. 30, 1983)
GAO/FPCD-81-24	Ways To Improve Federal Management and Use of Productivity Based Rewards (Dec. 31, 1980)
GAO/FGMSD-79-9	Does the Federal Incentive Awards Program Improve Productivity (Mar. 15, 1979)

VI. GAO CONTACT

Rosslyn Kleeman 275-6204

LABOR 7: ESTABLISHMENT OF AREA WAGE SCALES

I. PPSSCC ISSUE AND SAVINGS

The Secretary of Labor should recommend to the Office of Personnel Management that it propose legislation calling for the establishment of area wage scales for the federal civilian nonsupervisory white-collar work force.

The PPSSCC estimates that savings in payroll costs exceed $800 million annually after an area wage scale system was fully in place.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO agrees with the PPSSCC that the federal government's use of a single national pay scale does not recognize that private sector firms recruit clerical and technical employees (nonsupervisory) from the local labor market and set their pay rates based on the prevailing rates for that area. GAO has supported a locality pay system for federal white-collar employees similar to that for federal blue-collar workers. Setting federal white-collar pay on a locality basis would decrease the situations where, in some areas, the federal government pays its employees more than the going rate, and in other areas, federal employees are underpaid compared to their private sector counterparts.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees that a white-collar locality pay system would require legislative action.

The administration did not seek legislative authority to implement the PPSSCC recommendation in the FY 1985 budget.

IV. GAO ANALYSIS OF SAVINGS ESTIMATES

GAO has not developed an estimated cost savings for this action. However, the Congressional Budget Office (CBO) did make a cost analysis on the impact of splitting the General Schedule and placing clerical and related occupations on a locality pay system (Compensation Reform for Federal White-Collar Employees: the Administration's Proposal and Budgeting Options for 1981, May 1980). CBO found that future federal pay increases for clerical

occupations as a group would diminish under a locality pay system (as the PPSSCC analysis shows) but that pay adjustments for professional and administrative positions under a national pay system would increase. According to CBO, "the net result could be to increase the federal payroll by some $100 million."

V. RELEVANT GAO REPORTS

GAO/FPCD-78-60	Federal Compensation Comparability: Need for Congressional Action (July 21, 1978)
GAO/FPCD-76-9	Federal White-Collar Pay Systems Need Fundamental Changes (Oct. 1975)

VI. GAO CONTACT

Rosslyn Kleeman 275-6204

I. PPSSCC ISSUE AND SAVINGS

The Office of Management and Budget should seek legislation that would bring wages of GPO employees in line with their counterparts elsewhere in the federal government.

The PPSSCC estimates that this change would save an estimated $62.9 million over the next 3 years.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

Since September 1976, GAO has issued three reports on GPO's pay system which showed the need to bring GPO wages more in line with wages paid to other federal printing and lithographic employees. These reports show that GPO employees who collectively bargain receive higher wages than do printing and lithographic employees who work for other federal agencies and private sector firms in the Washington, D.C. area.

In 1976, GAO recommended that the Public Printer should reevaluate GPO's pay policy, pay systems and pay-setting processes, with the objectives of determining whether GPO employees should be brought under the Federal Wage System and be paid and classified in the same way as other federal workers. In 1983, GAO suggested that a joint labor/management task force be established to consider new pay practices for GPO. GAO suggested two options that the task force should study as possible alternative pay systems for GPO. The first option would modify GPO's collective bargaining process to require that negotiated wage rates be determined on the basis of private sector prevailing wage surveys. The second option would place GPO collective bargaining employees under appropriate federal pay systems such as the Federal Wage System and General Schedule. Under this option, most GPO collective bargaining employees would be placed under the Federal Wage System.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC recommendation would require legislation which if enacted, would apply the federal wage grades and pay rates (printing and lithographic wage scales) to most GPO craft and industrial employees. The GPO compositors

(video keyboard operators, proofreaders, text editors, etc.) would probably be placed under the General Schedule. While GPO unions would not have a role in the pay-setting process for the General Schedule, they could have a role in the Federal Wage System process through representation on both the Local Wage Survey Committee and the Federal Prevailing Rate Advisory Committee. Other factors that need to be considered before the legislation could be implemented are (1) whether the wage retention provisions presently applicable to the rest of the government for downgrading positions would apply at GPO or (2) whether present GPO craft and industrial employees should be exempt from this legislation.

IV. GAO ANALYSIS OF SAVING ESTIMATE

If Congress enacts this legislation without wage retention provisions or exemption provisions, GAO agrees that the PPSSCC savings estimate appears reasonable. The savings would be substantially less if the legislation includes wage retention provisions or exempts certain employees.

V. RELEVANT GAO REPORTS

GAO/FPCD-83-32	Comparison of the U.S. Government Printing Office's Pay and Classification System to Other Federal and Private Sector Systems (June 3, 1983)
GAO/FPCD-82-49	Comparison of Collectively Bargained and Administratively Set Pay Rates for Federal Employees (July 2, 1982)
GAO/FPCD-75-164	Letter report to the Public Printer (Sept. 14, 1976)

IV. GAO CONTACT

Rosslyn Kleeman 275-6204

I. PPSSCC ISSUE AND SAVINGS

Would modifications in job classification, job evaluation, performance recognition, and the processes used in staff reductions at the Department of Energy (DOE) improve individual incentives and overall staff stability?

The principal expected benefits from the recommended improvements should be better employees, managers who are less preoccupied, less training or retraining time which cuts down on efficiency, and higher morale and productivity throughout the Department. The PPSSCC was unable to set a dollar value on such factors.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC made several recommendations to "deregulate" personnel management at DOE--implement a simpler, perhaps innovative classification system, improve the integrity of the merit pay system, examine features of the "excepted" service that might be introduced in the Department; and revise reduction-in-force policies. The PPSSCC cited the need for the personnel system to be responsive to the agency mission and to efficiently attract, reward, and retain talented people. GAO agrees that these concerns with agency personnel systems should be addressed, but they are not necessarily unique to DOE. Since such goals are common to other departments and agencies, solutions should be considered for governmentwide applicability. GAO believes that agencies and the Office of Personnel Management (OPM) should work together to implement pilot programs for improvement of personnel systems and to share the results of their assessments.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

To some extent the recommendations can be addressed by DOE. As the PPSSCC acknowledges, however, some OPM regulations and federal statutes would have to be revised for the full benefits of the recommendations to be realized. DOE has not taken actions to implement the recommendations. OPM has initiated a study of governmentwide classification/compensation alternatives.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC realistically did not project quantifiable savings from recommended improvements.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

Rosslyn Kleeman 275-6204

I. PPSSCC ISSUE AND SAVINGS

Can the excessive costs associated with the Federal Position Classification System that are due to overgrading and administration be reduced?

According to the PPSSCC, if the PPSSCC's recommendations are implemented, an estimated $992.6 million could be saved in Fiscal Year 1984, $1,590.2 million in Fiscal Year 1985, and $2,207.4 million in Fiscal Year 1986.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The major thrusts of the PPSSCC recommendations are the need for (1) reducing overgrading in general and (2) reducing, more specifically, the average grade by one-half of a grade. Although GAO agrees that overgrading should be minimized, it has not studied the extent to which overgrading exists and therefore can neither endorse nor criticize the findings in the Office of Personnel Management's (OPM's) report on overgrading that form the basis for the PPSSCC recommendations.

The PPSSCC's recommendation that the average grade be reduced is based on their analysis of the grade levels of a relatively higher paid, small portion of the white-collar work force--i.e., professional, administrative, and supervisory positions. The PPSSCC analysis did not include federal clerical and technical positions, which make up a large portion of the federal white-collar work force.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC report correctly states that the Office of Personnel Management (OPM) has the authority and responsibility for developing standards and overseeing classification of positions. OPM is currently studying the standards development process to identify ways to shorten production time, length and complexity of standards, and other user simplification and cost savings improvements. More substantive revision toward grade reduction, via the standards process, will be limited by the grade level definitions specified in law. However, no such legislative or legal restrictions apply to such initiatives as

the administration's current program to reduce the number of grade 11-15 positions by 2 percent per year for 4 years beginning in fiscal year 1985.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

Most of the nearly $5 billion, 3-year projected gross savings is based on the reduction of overgrading and reduction of the government-wide average grade. This savings estimate may be overstated.

How much the federal government can anticipate saving by reducing overgrading is questionable not only because of the uncertain extent of the problem, but also because grade and pay retention regulations would prevent any first year savings as assumed by the PPSSCC and would also significantly reduce savings for several years thereafter. Furthermore, the PPSSCC did not consider the alternatives to downgrading. For example, jobs can be restructured to include additional duties that justify higher grades.

V. RELEVANT GAO REPORTS

GAO/FPCD-75-173 Classification of Federal White-Collar Jobs Should Be Better Controlled (Dec. 4, 1975)

VI. GAO CONTACT

Rosslyn Kleeman 275-6204

FRS 1: RETIREMENT AGE (CIVILIAN)

I. PPSSCC ISSUE AND SAVINGS

Could federal retirement costs be substantially reduced by increasing the age at which unreduced pension benefits are available--from 55 in the civil service retirement system--to the more typical private sector retirement age of 62?

The PPSSCC estimates that $3.668 billion could be saved in the first 3 years on a present value basis following full implementation.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

In evaluating the retirement age issue, it should be understood that age 55 retirement in the civil service retirement system is available only to long-term employees, i.e., those with 30 or more years of federal service. Employees with shorter periods of service must work to later ages before retirement is allowed (age 60 after 20 years and age 62 after 5 years). Because of the 30-year service requirement, most federal employees do not qualify for retirement at age 55. Moreover, many employees do not retire immediately upon reaching retirement eligibility. The average age at retirement is 61 and only about one-third of retirees leave before age 60.

GAO's analysis of private sector retirement plan features confirms the PPSSCC position that age 62 is a commonly used "normal" retirement age (earliest age when unreduced benefits are available). However, some plans allow long-service employees to retire with unreduced retirement benefits at earlier ages, and very few plans that use age 62 require employees to have 30 years of service before benefits will be paid. For example, a survey conducted by the Bureau of Labor Statistics of retirement plans covering about 17 million private sector employees showed that 13 percent of the employees were in plans that allowed retirement at any age if the employees had 30 years of service. Adoption of the PPSSCC proposal would remove the distinction that the civil service retirement system and some private sector plans make between long- and short-service employees.

The PPSSCC also proposed that benefit amounts paid to federal retirees before age 62 be subject to actuarial reduction. GAO's analysis indicates that actuarial reduction for early retirement is not the prevailing practice in private sector plans. Most plans' reductions are based on percentages that are less than actuarial.

GAO recognizes that providing full benefits at age 55 along with full inflation protection is a more liberal benefit than found in typical private sector plans and may warrant some adjustment. However, the PPSSCC's omission of a capital accumulation plan as part of its proposed federal retirement program is a significant shortcoming when considering the issue of pension plan benefit reductions for retirements before age 62. For example, thrift plans, the most common type of capital accumulation plan in the private sector, typically provide that employers will match 50 percent of employee contributions of up to 6 percent of pay. Participating employees may have enough assets accumulated in the thrift plan to provide a reasonable level of retirement income in conjunction with their reduced pension plan benefits to make early retirement a viable option. The PPSSCC's recommendation could effectively preclude a similar option for federal employees.

Since the PPSSCC did not recommend a retirement program comparable to that typically available in the private sector, GAO cannot endorse its proposals as being sound personnel policy for federal employees. Adoption of the proposals could put the government at a competitive disadvantage in recruiting quality employees. Moreover, adoption of the PPSSCC proposal to apply the changes to employees under age 45 would be a retraction of a promised benefit to employees who have worked many years under the current provisions. If such a change were attempted in the private sector, it could violate the statutory prohibition against reductions in accrued benefits in private sector plans. The Employee Retirement Income Security Act of 1974, as amended, generally provides that a private sector retirement plan may not be amended to reduce accrued benefits of a participant (26 USC Section 411(d)(6) (as amended by Section 301(a)(1) of the Retirement Equity Act of 1984, Public Law 98-397, 98 Stat. 1450 (1984))).

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

As the PPSSCC recognized, legislation would be required before the proposals could be implemented. No such legislation has been proposed. If the necessary legislation were enacted, GAO can foresee no administrative problems associated with implementing the proposals.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC's $3.668 billion savings estimate is based on the Office of Personnel Management's (OPM's) determination that the proposed changes would reduce the retirement

system's cost by 2.2 percent of payroll. The savings estimate is 2.2 percent of projected payroll in the years 2001-03 discounted to the present at 6 percent a year. It is a very long-term cost savings. There would be no effect on outlays for at least 11 years, when some current 44-year-old employees would otherwise be eligible to retire. If the changes were to apply only to new employees, it would take much longer for outlay reductions to result.

In estimating the system's cost, OPM must make various assumptions about future economic events. The cost estimate assumes that (1) the rate of inflation will average 5 percent a year; (2) federal employees will receive pay raises of 5.5 percent a year; and (3) the retirement fund will earn 6 percent a year on its investments. The estimate is only as good as these assumptions. GAO is particularly uncomfortable with the interest rate assumption. The fund is currently earning an average rate of return of over 10 percent on its investments and will continue to receive this rate on its current holdings. A relatively small increase in the interest rate assumption would cause a significant decrease in the cost estimate. For example, increasing the interest assumption from 6 to 7 percent would reduce costs by 25 percent. To the extent that the system's cost is overstated, the PPSSCC's savings estimate is also overstated.

V. RELEVANT GAO REPORTS

GAO/OCG-84-2 Features of Nonfederal Retirement Programs (June 26, 1984)

VI. GAO CONTACT

Rosslyn Kleeman 275-6204

FRS 2: EARLY RETIREMENT

I. PPSSCC ISSUE AND SAVINGS

Does inappropriate use of early retirement provisions in the civil service retirement system result in excess federal retirement costs?

Modification of early retirement provisions would save $1.2 billion in the first year of implementation and $3.7 billion in the first 3 years on a present value basis.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC was concerned about the early retirements that are allowed under the system during agency reorganizations and work force reductions. In these circumstances, eligible employees can retire if they are age 50 with 20 years of service or at any age if they have 25 years of service. Benefit amounts for the early retirees are reduced by 1/6 of 1 percent for each month (2 percent a year) that they are under age 55.

The PPSSCC made two recommendations to reduce early retirement costs. It recommended that early retirements be permitted only in cases where employees were being dismissed as a result of a reduction in force and that actuarial reductions be applied to the benefit amounts so the system would incur no additional costs from the early retirements.

In making the first recommendation, the PPSSCC cited a GAO report that made virtually the same recommendation. However, the PPSSCC was apparently unaware that legislation to implement GAO's recommendation had already been enacted by the Congress (the Omnibus Budget Reconciliation Act of 1982) before the PPSSCC report was prepared. Thus, this PPSSCC recommendation is moot.

The effect of the second PPSSCC recommendation would be to require an early retirement reduction at least three times greater than the reduction that is now applied. In GAO's opinion, this recommendation should be evaluated in light of the fact that early retirements in the civil service system are allowed only in work force reduction situations, when employees are generally being separated through no fault of their own and cannot continue their careers. GAO has not analyzed private sector practices in similar circumstances, but noted that private employers often give added retirement benefits to encourage employees to retire early when the work force is being

reduced. The PPSSCC did not discuss private sector practices in this area.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that legislation would be required to change the early retirement benefit reduction formula. No such legislation has been introduced. If enacted, a new reduction formula should be quite simple to administer.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

There are no further savings to be realized from the first PPSSCC recommendation since the proposed change is already law. (The PPSSCC had attributed $117 million of the 3-year savings of $3.7 billion to this recommendation.)

The estimated 3-year savings of $3.6 billion for the second recommendation are far too high. Relatively few employees get early retirement in the government (5,332 in 1981; 5,323 in 1982; and 3,395 in 1983). The number is decreasing because of the enactment of legislative changes recommended by GAO to tighten the eligibility criteria. With such a small number of employees involved, it would be impossible to save $3.6 billion in any 3-year period solely by increasing the early retirement reduction over its current level. The annual annuities for employees retiring early in 1983 totaled less than $50 million.

It appears that the PPSSCC derived its estimate by inappropriately using the OPM's estimate of savings from raising the system's earliest optional retirement age to 62 and imposing actuarial reductions for earlier retirement (see issue FRS 1). The PPSSCC estimates for its optional retirement and early retirement recommendations are identical.

V. RELEVANT GAO REPORTS

GAO/FPCD-81-71	Tightening Eligibility Standards Could Cut Involuntary Retirement Costs by Millions of Dollars (Sept. 25, 1981)
GAO/FPCD-81-8	Voluntary Early Retirements in the Civil Service Too Often Misused (Dec. 31, 1980)

VI. GAO CONTACT

Rosslyn Kleeman 275-6204

FRS 3: LONG-TERM DISABILITY

I. PPSSCC ISSUE AND SAVINGS

Should disability retirement be removed from the civil service retirement system and be established as a separate long-term disability program structured along the lines of most private sector long-term disability plans?

The PPSSCC estimated savings to federal government of $501 million over 3 years on a present value basis.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO's analysis of private sector retirement program features indicates that employees may receive disability benefits from a pension plan, a separate long-term disability insurance plan, or both, in addition to disability benefits from social security. Studies show that the separate insurance plan approach is most often used by employers who sponsor compensation-based pension plans for their employees. (The civil service retirement system is a compensation-based pension plan. Plans of this type consider salary levels in determining benefit amounts.) The private sector insurance plans typically provide 60 percent or more of pay to disabled workers less any social security or other disability benefits received. Disability insurance benefits are paid as long as the disability continues or until such time as the individual reaches a specific age (usually age 65). At that time, retirement benefits are paid, and insurance benefits are terminated.

The PPSSCC recommended that the government use the separate insurance plan approach. GAO agrees that this would be consistent with private sector practices. However, the PPSSCC did not recommend that the insurance plan provide the same level of benefits as provided by private sector plans. As currently structured, civil service disability benefits are generally less than 60 percent of pay. The PPSSCC apparently intended that the insurance plan provide the same level of benefits that the civil service system now provides. GAC believes that, if the private sector approach to providing disability benefits is adopted, private sector benefit levels should also be adopted.

The PPSSCC also recommended that the definition of disability used by the civil service system should be changed to be consistent with social security and private sector plans, i.e., inability to perform any gainful employment.

GAO agrees with the PPSSCC's assertion that the civil service disability criteria is more liberal than the criteria used in social security and the private sector. However, the criteria for civil service disability retirement has been tightened considerably in recent years, primarily at GAO's suggestion. Employees must now be unable to perform their jobs, or any other job at the same grade level, before disability retirement will be approved. The number of employees retiring on disability has dropped dramatically since this criteria was adopted. The PPSSCC acknowledged the reduction in disability retirement approvals and estimated that disability retirement costs had been cut in half as a result.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that implementation of the recommendations in this issue would require legislation. No such legislation has been introduced. If the recommendations were adopted, a new mechanism to adjudicate, pay, and monitor disability claims would be required. Presumably, an insurance carrier, or carriers, would have to be selected to operate the program. The government could opt to administer the insurance plan itself, but this approach would not offer any apparent advantages over the current disability claims processing in the retirement system.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC based its savings estimate on the perceived difference in cost between private sector disability plans and civil service disability retirement. (The PPSSCC estimated civil service disability costs at 2.5 percent of payroll and private sector disability costs at 2.2 percent of payroll.) It then assumed that, if private sector practices were adopted, a savings equivalent to .3 percent of payroll, or $501 million on a present value basis over a 3-year period, could be achieved.

The PPSSCC report did not explain how the 2.2 percent private sector cost estimate was derived. Therefore, GAO could not tell if the estimate was limited to the cost of employer programs only or included the cost of social security disability benefits. If social security costs were not included, the estimate is understated. Also, the cost difference could be caused by the different structures of the programs in the two sectors. Private sector disability insurance benefits terminate when employees reach age 65, whereas civil service disability retirement benefits can be paid for life. In any event, with the exception of possibly fewer retirements by tightening the

eligibility criteria, there would be no savings from the PPSSCC proposals if the same level of disability benefits as the civil service retirement system now provides was provided under new insurance program. If the higher benefit levels for private sector employees were considered, the PPSSCC proposals could well result in a greater cost than civil service disability retirement, particularly for those employees hired before January 1, 1984, who do not have social security coverage.

V. RELEVANT GAO REPORTS

GAO/OCG-84-2 Features of Nonfederal Retirement Programs (June 26, 1984)

VI. GAO CONTACT

Rosslyn Kleeman 275-6204

FRS 4: BENEFIT FORMULA (CIVILIAN)

I. PPSSCC ISSUE AND SAVINGS

Could the civil service retirement system benefit formula be revised so as to reduce costs and bring annuities more in line with private sector practices?

The PPSSCC estimated savings of $25 billion over 3 years on a present value basis following full implementation of its proposals.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC made six recommendations to reduce civil service benefit amounts. These were:

--Adopt a benefit formula of 1.5 percent of average salary less a social security offset of 1.25 percent for each year of service. The new formula and social security coverage would apply to new employees and all current employees under age 45.

--Change the salary base used in benefit calculations from the current 3-year average to a 5-year average. This change would not apply to employees who were within 3 years of being eligible for retirement.

--Eliminate the practice of crediting unused sick leave toward years of service in computing benefits.

--Base survivor benefit reductions on actuarial factors rather than the fixed reduction percentages that are now applied.

--Eliminate survivor benefits for young adults between age 19 and 22 who are full-time students in post-secondary schools.

--Increase the service requirement for vesting from the current 5 years to 10 years.

Some of the PPSSCC's recommendations would have merit if they applied only to federal employees hired after December 31, 1983, who thus have social security coverage. For example, the proposed benefit formula appears to be generally comparable with formulas in private sector pension plans. Therefore, it is worthy of consideration for the supplemental plan that must be developed for the new federal employees who have social security. Similarly, the proposed 10-year vesting requirement is consistent

with private sector practices and could be appropriate for new federal employees whose social security coverage provides protection for shorter periods of service. Also, using the 5-year salary average and basing survivor benefit reductions on actuarial factors would be consistent with private sector practices. Whether employees under age 45 hired before January 1984 should be covered by these provisions (and social security), as the PPSSCC proposed, is a policy matter for Congress to decide. Congress decided in the 1983 Social Security Amendments to limit social security coverage to new hires.

The recommendation to eliminate survivor benefits for post-secondary students has merit. These benefits were added to the civil service system in 1962 to be consistent with a similar provision in the social security program. As recommended by GAO, the social security provision has been eliminated, effective April 1985.

The reasonableness of the sick leave credit recommendation is questionable. The sick leave credit was added to the retirement system in 1969 as an incentive for employees to use their sick leave judiciously. While the proposed change follows private sector practices, the potential impact on sick leave usage must be considered.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

As recognized by the PPSSCC, implementation of each of the recommendations would require legislation. No such legislation has been introduced. If the necessary legislation were enacted, GAO can foresee no feasibility problems associated with implementing the recommendations.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The recommended change in the civil service benefit formula accounted for \$18.4 billion of the \$25 billion savings estimated by the PPSSCC for this issue. GAO's analysis indicates that little or no savings would be achieved by this change. The PPSSCC acknowledged that civil service replacement rates at retirement are comparable to private sector replacement rates from pension plans and social security combined. If so, there would be no apparent savings from incorporating the typical private sector benefit formula into the civil service system. Furthermore, the PPSSCC estimate was based on reductions in the cost of the current civil service system that would result but did not consider the added cost of social security.

GAO has no reason to question the estimated savings in retirement costs from the other recommendations if the underlying assumptions used are appropriate. However, the savings estimates are based on certain economic assumptions that may or may not be valid.

V. RELEVANT GAO REPORTS

GAO/OCG-84-2 Features of Nonfederal Retirement Programs (June 26, 1984)

VI. GAO CONTACT

Rosslyn Kleeman 275-6204

FRS 5: COST-OF-LIVING ADJUSTMENTS IN FEDERAL PENSION SYSTEM (CIVILIAN)

I. PPSSCC ISSUE AND SAVINGS

What savings would result if federal retirement benefits were no longer fully indexed to inflation?

The PPSSCC estimates that savings of $7.3 billion over 3 years on a present value basis could be achieved if the cost-of-living adjustment provisions of the civil service retirement system were consistent with prevailing private sector practices.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

As a general rule, civil service annuities are fully indexed to increases in the Consumer Price Index (CPI). The PPSSCC concluded that federal retiree adjustments were more liberal than those granted to private sector retirees. It acknowledged that social security benefits are also fully indexed but maintained that, on the average, private sector pension plan adjustments offset only about 33 percent of the increase in the CPI.

To make the civil service system comparable with private sector programs, the PPSSCC recommended that current civil service retirees and current employees over age 45 receive full adjustments only on the amount of their annuities equivalent to the social security benefits they would have received if their federal employment had been covered by social security. Any annuity amount in excess of the social security equivalent would be indexed at 33 percent of the CPI increase. Similarly, for new employees and current employees under age 45, whom the PPSSCC recommended be covered by social security, annuity adjustments would be limited to 33 percent of the CPI increase.

GAO generally agrees that civil service cost-of-living adjustments are higher compared with the adjustments private sector retirees receive from social security and employer pension plans. However, GAO is concerned that the PPSSCC proposals may go too far. GAO's analysis indicates that private sector pension plan indexing, particularly for the largest plans, is greater than the PPSSCC recommended for the civil service system. A study conducted for the Department of Labor showed that, during 1973 to 1979, private sector pension plans increased benefits by 38 percent of the CPI on the average. In plans with 10,000 or more recipients, the average increase during the time period was 57 percent of the CPI increase.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that implementation of the recommendation would require new legislation. No such legislation has been proposed.

Insofar as the feasibility of accomplishing the recommendations is concerned, the greatest difficulty would involve the computation of the amounts federal employees and retirees would receive in social security benefits if they had been covered by social security. The PPSSCC suggested that calculating the social security equivalent should not pose a major problem since salary histories should be readily available from the Office of Personnel Management. GAO is not sure how much of the needed information is readily available, but, in any event, analyzing it would be a major undertaking.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

Reducing the inflation protection in the civil service system to 33 percent on all amounts above the social security level would cut costs substantially. As previously discussed (see issue FRS 1), the PPSSCC's savings estimates for its recommendations are based on economic assumptions that may or may not be valid. Otherwise, GAO has no reason to question the estimated savings associated with this issue.

V. RELEVANT GAO REPORTS

GAO/OCG-84-2 Features of Nonfederal Retirement Programs (June 26, 1984)

VI. GAO CONTACT

Rosslyn Kleeman 275-6204

I. PPSSCC ISSUE AND SAVINGS

Could cost savings be achieved if the federal government coordinates the delivery of pension benefits by integrating the civil service retirement system, the military retirement system, and social security?

Integration of social security and civil service benefits could save an estimated $1.8 billion over 3 years, reducing the costs associated with the receipt of multiple retirement benefits from a single employer.

In addition, by eliminating the credit for military service in the civil service pension, $800 million could be saved over 3 years.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC said the objectives of its recommendations under this issue were to recognize the federal government as a single employer and to eliminate windfall benefits employees could receive from overlapping and duplicative benefits in the civil service, military, and social security retirement programs.

To accomplish these objectives, the PPSSCC recommended that a social security offset be applied to retiring and retired federal employees regardless of retirement date. The offset to civil service annuities would be 1.25 percent of any social security benefits received multiplied by each year of federal service. Another recommendation would eliminate credit for military service in the civil service system, including reductions in current retirees' annuities for any military service credits they had been granted.

GAO cannot agree with the PPSSCC that the civil service, military, and social security retirement programs provide overlapping and duplicative benefits to federal employees. Federal employees hired before January 1984 were not covered by social security; therefore, they earned no social security benefits during their federal civilian employment. It is true that many of these employees do obtain social security coverage from employment outside the government in other jobs. However, these social security benefits do not overlap or duplicate any civil service benefits the employees receive. Undoubtedly, many private sector employees also earn retirement benefits from more than one employer.

Moreover, the social security law was changed in 1983 to remove the so-called "windfall" benefits that some

federal retirees received from working a relatively short time in nongovernment employment covered by social security. Under this law, social security benefits for retirees who also receive a civil service annuity will be calculated under a less generous formula than the formula used for other workers.

Similarly, military service (other than active duty periods for reservists) is not creditable under both the military and civil service retirement systems. It is entirely possible for a person to receive retirement benefits from the two systems, but the benefits would have been earned during different periods of federal service.

Military service after 1956 was covered by social security. Until legislation was enacted in 1982, federal civilian employees who had military service after 1956 could not use this service period under the civil service retirement system if they became eligible for social security benefits. The legislation allows such military service to be used for both civil service and social security benefits if the employees contribute 7 percent of their military pay to the civil service fund. Employees hired after the legislation was enacted must make the contribution in order for their military service to be creditable under the civil service system, regardless of whether they become eligible for social security benefits.

If enacted, the PPSSCC recommendations would cause a significant cut in many current retirees' benefits. Such retroactive benefit reductions could be questioned in the courts.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that implementation of the PPSSCC's recommendations would require new legislation. No such legislation has been proposed. If the necessary legislation were enacted, considerable effort would be required to identify the retirees whose benefits would be reduced and the amount of the reductions, but these determinations should be feasible to make.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC's $1.8 billion 3-year savings estimate associated with the social security offset recommendation assumed that civil service benefits for each retiree over age 65 would be cut by an average of $1,890 a year. The reduction would be phased in over 4 years. In making this estimate, the PPSSCC assumed that all civil service retirees over age 65 were receiving social security benefits and that these benefits were equal to the average

benefit received by all social security recipients over age 65. It also assumed that each of the retirees had 30 years of federal service. These assumptions appear to be too high, based on a study by the Social Security Administration in February 1983 entitled Civil Service Retirement System Annuitants and Social Security. The study showed that in 1979, about two-thirds of all civil service retirees over age 62 were entitled to social security benefits from other employment. However, their civil service benefits and their social security benefits were less than the average benefits paid under each program.

The $800 million 3-year savings estimate from eliminating military service credits was based on an assumption that 48 percent of all male retirees had an average of 4.6 years of military service each. GAO has no information on the validity of these estimates. Office of Personnel Management data indicates that the average military service credit for all retirees on the retirement roll at the end of fiscal year 1983 was 1.8 years.

V. RELEVANT GAO REPORTS

GAO/FPCD-78-49 Need For Overall Policy and Coordinated Management of Federal Retirement Systems (Dec. 29, 1978)

VI. GAO CONTACT

Rosslyn Kleeman 275-6204

I. PPSSCC ISSUE AND SAVINGS

Could improvements be made in the accounting practices of the government concerning the civil service retirement system?

Savings from the recommendations are generally not quantifiable because of the broad and encompassing nature of the suggested improvements.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC concluded that the cost and liabilities of the civil service retirement system are much greater than recognized by current costing and funding procedures. It called for full funding of accruing retirement costs and for amortization of the retirement system's unfunded liability.

GAO agrees that the methods currently used to calculate and allocate civil service retirement costs to the agencies cause accruing costs to be understated. Accruing costs are determined on a "static" basis, using the assumptions that covered employees will receive no pay raises to increase their future retirement benefits and retirees' annuities will not be adjusted for inflation. Consequently, because of these unrealistic assumptions, the costs of government programs are understated, and an unfunded liability has been created in the retirement system. Many times GAO has urged Congress to require the adoption of actuarial valuation methods and funding provisions that reflect the full cost of accruing retirement benefits and to charge agency operations with costs not covered by employee contributions.

It must be recognized in evaluating this issue that an important difference exists between civil service and private sector pension funding practices. Contributions to private sector pension funds are usually made in cash or marketable securities by employers and/or employees. The cash contributions are invested in income-producing securities that are then sold in the securities markets when needed to make benefit payments. The essence of the private sector pension fund is that its receipts and balance represent cash or assets that can be converted to cash. On the other hand, the civil service retirement fund is required by law to be invested in federal securities. There is no cash involved in this kind of intra-governmental transaction, only bookkeeping entries. Thus, funding in itself does not cause a financial hardship for the government. When funds are needed to make benefit payments, the Treasury obtains the cash through its normal

channels of tax receipts or borrowing from the public. The effect of fully funding civil service retirement costs, as they accrue, would be enhanced cost recognition and budgetary discipline as well as sounder fiscal and legislative decisionmaking.

GAO agrees with the PPSSCC that amortization of the unfunded liability would be consistent with the legal requirement that private sector pension plans amortize their unfunded liabilities. Also, the 1984 Defense Authorization Act required the military retirement system's unfunded liability to be amortized beginning in fiscal year 1985.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

As the PPSSCC recognized, implementation of the PPSSCC's recommendations would require new legislation. Such legislation has not been proposed. If the necessary legislation were enacted, there should be no problems in implementing the recommendations.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO agrees with the PPSSCC that full funding of accruing retirement costs would not result in any direct savings to the retirement system. However, it would result in increased federal revenues though greater contributions from off-budget agencies (those whose operations are not funded by appropriated funds). Many such agencies have been established to operate on a self-supporting basis. To the extent that they would be required to contribute more to the retirement fund, federal revenues would increase. For example, the Postal Service could be required to increase its retirement contribution by over $3 billion a year if it were charged the full accruing retirement costs for its employees.

V. RELEVANT GAO REPORTS

GAO/FPCD-78-49	Need for Overall Policy and Coordinated Management of Federal Retirement Systems (Dec. 29, 1978)
GAO/FPCD-77-48	Federal Retirement Systems: Unrecognized Costs, Inadequate Funding, Inconsistent Benefits (Aug. 3, 1977)

VI. GAO CONTACT

Rosslyn Kleeman 275-6204

FRS 8: INVESTMENT POLICIES OF THE CIVIL SERVICE RETIREMENT SYSTEM

I. PPSSCC ISSUE AND SAVINGS

Could improvements be made in the investment policies of the civil service retirement system?

If some of the assets were invested in corporate AAA bonds instead of federal securities, additional revenues of $600 million over 3 years on a present value basis would accrue to the civil service retirement fund.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The civil service retirement fund must now, by law, be invested in federal securities. The PPSSCC maintained that investments in corporate AAA bonds would provide a higher return with minimal risk and recommended that 25 percent of the fund's assets be invested in corporate AAA bonds.

Under current investment practices, marketable federal securities are seldom purchased. Rather, the civil service retirement fund is primarily invested in nonmarketable special issue securities. Interest on these securities is credited at the average market yield on all outstanding marketable Treasury securities maturing or callable in more than 4 years.

The Treasury tries to minimize adverse effects on the financial markets by its borrowings. Thus, it adopted a policy of not using its good credit rating to earn higher interest on trust fund investments through arbitrage. In GAO's opinion, this is sound government policy.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that implementation of the PPSSCC's recommendations would require new legislation. Such legislation has not been introduced. If the necessary legislation were enacted, implementation should be feasible. However, investing in corporate AAA bonds would require more investment management and expertise than is now necessary for federal security investments. Moreover, the PPSSCC said it did not have the time or resources to study the impact that a shift from federal securities to corporate securities would have on the financial markets. It recommended that the Department of Treasury and the Office of Personnel Management consider the economic

impact of the proposal on the financial markets before implementation. GAO agrees that such an analysis would be appropriate.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC based its savings estimate on the assumption that the historical 0.6 percentage point greater yield for corporate AAA bonds over Treasury bonds would continue. Whether this assumption is appropriate is unknown, particularly with the added purchases of corporate bonds the government would make if the recommendations were adopted. Moreover, the PPSSCC assumed that the current retirement system and associated contribution levels would continue without change. This is no longer a valid assumption since the law already requires that a new retirement system be developed and in place no later than January 1, 1986, for those employees covered by social security. The content of the new system and the contribution amounts it will require are unknown at this time.

V. RELEVANT GAO REPORTS

GAO/FPCD-79-17 Investment Policies, Practices, and Performance of Federal Retirement Systems (Aug. 31, 1979)

VI. GAO CONTACT

Rosslyn Kleeman 275-6204

FRS 9: CHANGE THE CIVIL SERVICE RETIREMENT SYSTEM TO A DEFINED CONTRIBUTION PLAN

I. PPSSCC ISSUE AND SAVINGS

Could changing the civil service retirement system from a defined benefit to a defined contribution plan help reduce the increasing cost of the pension plan?

Savings are those that arise from reducing current federal costs for the civil service retirement system to levels experienced in the private sector. No separate savings have been calculated for this issue.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

There are two types of pension plans--defined contribution and defined benefit. A defined contribution plan specifies the rate at which funds will be added to each participant's account. The benefits consist of the accumulated contributions and investment earnings (or losses) at the time of retirement. Defined benefit plans use specified formulas that consider such factors as salary, age, and years of service to compute benefit amounts. The civil service retirement system is a defined benefit plan.

The PPSSCC did not provide any information on the design of the defined contribution plan. Thus, GAO cannot comment on the merits of the proposal other than to observe that the proposed approach would not be consistent with the manner in which retirement benefits are typically provided in the nonfederal sector.

Available data indicate that nearly all nonfederal employers with pension plans use the defined benefit approach. The Department of Labor's Bureau of Labor Statistics found in a 1982 survey ("Employee Benefits in Medium and Large Firms") of 976 pension plans covering 17 million employees that 99 percent of the employees were in defined benefit plans. Similarly, a 1983 survey of 781 pension plans by the Hay Associates ("1983 Noncash Compensation Comparison") found that 95 percent of the plans were of the defined benefit type. In state governments, all but one have defined benefit pension plans.

Many nonfederal employers also provide capital accumulation plans--i.e., stock-ownership, profit-sharing, savings and investment, and deferred compensation--as supplements to their defined benefit pension plans. Capital accumulation plans are considered to be defined contribution plans. The Bureau of Labor Statistics survey showed that 74 percent of the companies in the survey had

capital accumulation plans for their employees; 64 percent had both a capital accumulation plan and a defined benefit pension plan.

State governments also often provide capital accumulation plans to supplement pension plan benefits. A 1982 survey by the Council of State Governments showed that all but 3 of the 36 states surveyed had established or authorized deferred compensation plans for their employees in addition to their pension plans.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

Replacement of the civil service retirement system with a defined contribution pension plan would require new legislation. Such legislation was introduced in the 97th Congress (S. 2905) but was not approved. If enacted, implementation of such a plan should not be a problem.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC did not calculate a savings amount for this issue. Without information on how the proposed defined contribution pension plan would be structured, the cost of such a plan as compared to the civil service retirement system cannot be determined.

V. RELEVANT GAO REPORTS

GAO/OCG-84-2 Features of Nonfederal Retirement Programs (Jun. 26, 1984)

VI. GAO CONTACT

Rosslyn Kleeman 275-6204

STATE 2: FOREIGN SERVICE RETIREMENT AND DISABILITY SYSTEM

I. PPSSCC ISSUE AND SAVINGS

Does the Foreign Service retirement and disability system present an opportunity to realize cost savings from comparisons to civil service and private sector retirement programs?

The PPSSCC recommendations result in a first-year savings of $.2 million if changes to the system are phased in beginning with all new employees and $36.3 million if immediate full implementation is chosen. Savings for 3 years would total $4.9 million if phase-in implementation is elected and $114.1 million if full implementation is chosen.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC maintained that the more generous retirement age and benefit formula provisions in the Foreign Service system were not needed or justified and recommended that they be changed to conform with the civil service retirement system. GAO agrees that the Foreign Service system should be brought in line with the civil service system.

In comparison to the civil service retirement system, the Foreign Service retirement system provides higher benefits at an earlier age for less service. Employees in the Foreign Service system have the option to retire at age 50 with 20 years of service. The benefit formula is 2 percent of the employees' highest 3-year average salary multiplied by total years of service. In contrast, the earliest optional retirement eligibility in the civil service system is age 55 and 30 years of service. Civil service employees with only 20 years of service cannot retire until age 60. The civil service formula is 1.5 percent of high 3-year average salary for each of the first 5 years of service, 1.75 percent for each of the next 5 years, and 2 percent for each year over 10. Employees with equal periods of service receive slightly greater benefit amounts from the Foreign Service system.

The PPSSCC report did not address or analyze the historical reasons for the differing provisions in the Foreign Service and civil service systems. The Foreign Service system allows retirement at an earlier age than the civil service system primarily to accommodate the "selection-out" promotion system used in the Foreign Service. Foreign Service officers can be involuntarily separated when they fail to be promoted within a prescribed period of time or fail to meet established standards of performance. Voluntary retirement after

20 years of service lightens the pressure of the selection-out system.

In an earlier examination of the differing provisions of the various government retirement programs, GAO also questioned the need for the preferential provisions of the Foreign Service retirement system. As the PPSSCC pointed out, employees under the system retire, on the average, at age 57 with 28 years of service--only 2 years before they would have been eligible to retire optionally under the civil service system's provisions. Moreover, the civil service system has involuntary retirement provisions (age 50 and 20 years of service or any age with 25 years) which could accommodate early retirements caused by the Foreign Service's selection-out system.

The State Department has maintained that preferential retirement benefits in the Foreign Service system are needed. According to the Department, the conditions of employment are so unlike between most federal and Foreign Service employees--with respect to conditions of service, health hazards, and length of useful service--that entirely different systems are necessary if Foreign Service management and employee interests are to be served.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC view that implementation of the PPSSCC's recommendations would require new legislation. No such legislation has been introduced. If the necessary legislation were enacted, implementation should be feasible.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The savings estimates assume that the current Foreign Service retirement system will not otherwise be changed if the PPSSCC's recommendations are not adopted. This assumption does not recognize the fact that new Foreign Service hires after December 31, 1983, are under social security, and Congress is in the process of designing a new system to supplement the social security benefits.

V. RELEVANT GAO REPORTS

GAO/FPCD-78-49 Need for Overall Policy and Coordinated Management of Federal Retirement Systems (Dec. 29, 1978)

VI. GAO CONTACT

Rosslyn Kleeman 275-6204

PER 3: ANNUAL LEAVE

I. PPSSCC ISSUE AND SAVINGS

Can annual leave (vacation) costs for the civilian workforce of the Executive Branch be reduced by amending the annual leave policy to conform more closely with private sector practices?

If changes were made to federal annual leave practices, the PPSSCC estimates that $3.8 billion could be saved over 3 years.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

Based on its comparison of private sector vacation with federal leave practices, the PPSSCC recommended that new federal employees not be allowed to take leave for 6 months; that most employees accrue less annual leave each year; and that they not be allowed to carry over unused leave at the end of the year. GAO believes that the PPSSCC's recommendations have little merit, because the proposed cutbacks, intended to reflect private sector practices, do not consider paid time taken off for personal reasons. In the private sector, such "personal days" are not charged to earned vacation time, but in the federal system they are charged to earned leave. Recent studies indicate that there is no significant difference in total paid time off between the government and private firms. For example, a December 4, 1984, "Study of Total Compensation in the Federal, State and Private Sectors" for the House Committee on Post Office and Civil Service showed the federal government's leave plan being more valuable by .8 percent of pay than the private sector's.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees that the PPSSCC's recommendations would require legislative action. The administration has not sought legislative authority to implement the PPSSCC recommendations.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC savings estimate of $3.8 billion is not realistic. Savings will occur only to the extent that payroll outlays are reduced. These recommendations would not directly affect outlays, because employees will be

paid whether they are on leave or at work. The recommendation could indirectly produce some savings by reducing overtime and workforce requirements because employees would be absent from work less often.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

Rosslyn Kleeman 275-6204

PER 4: SICK LEAVE

I. PPSSCC ISSUE AND SAVINGS

Can sick leave costs for the civilian workforce of the Executive Branch be reduced by amending the sick leave policy to conform more closely with private sector practices?

The PPSSCC estimates that its recommended changes to the sick leave policy would save the federal government $3.7 billion over 3 years.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC recommended (1) that employees not be allowed to accumulate more than 130 days of sick leave and (2) that employees who have more than 130 days at the time the 130-day restriction is enacted be allowed to keep previously accumulated leave balances until used.

GAO believes that the PPSSCC comparison of sick leave practices in the federal and private sectors is flawed. The PPSSCC compared federal sick leave with private sector sick leave and short-term disability provisions. Federal employees on extended sick leave would be on long-term disability in the private sector, but the PPSSCC did not incorporate long-term disability in the private sector in comparing leave practices. More importantly, GAO does not agree with the PPSSCC assumption that the recommendations will cause sick leave usage to decrease. If employees cannot save sick leave, some may tend to use it, which would increase rather than decrease sick leave usage.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees that the PPSSCC recommendations will require legislative action. The administration has not sought implementation authority on this recommendation.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO does not believe that the savings will be as large as the PPSSCC estimated.

The estimate is based on the assumption that sick leave usage would decrease if a limit is placed on the amount of sick leave employees can accumulate. We believe

it is more likely that sick leave usage will increase, not decrease. Secondly, even if sick leave usage did decrease, as assumed by the PPSSCC, federal employees would still be paid whether they are at work or on sick leave. Some savings could be realized from reductions in overtime and workforce requirements if employees were absent from work less often, but there is not enough information available to accurately determine the amount of savings.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

Rosslyn Kleeman 275-6204

LABOR 1: OPPORTUNITY TO REDUCE ABUSE IN FEDERAL WORKERS' COMPENSATION DISABILITY PROGRAM

I. PPSSCC ISSUE AND SAVINGS

"Can abuse (and any fraud) in the Federal Employee Compensation (FEC) system be reduced through the installation and effective use of a call-up/referral system and the institution of a comprehensive package of statistical reports in the Automated Data Processing (ADP) system?

A three year total savings of approximately $189 million in benefits payable can be realized by effectively implementing these system enhancements."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO agrees that a more effective FEC-ADP system should help detect abuses. This system, when implemented by Labor, will encompass and integrate automated capabilities and manual procedures for use in (1) processing claims for federal workers' compensation benefits and (2) administering the FEC program. The PPSSCC calls for the development of a system of ADP reports for management review that will contain information on claimants and their disabilities, physicians, claims examiners, and others to identify situations that deviate from norms. In addition, PPSSCC recommended that a master employee eligibility file be created to ensure that payments are limited to only those individuals who are identified as being eligible.

With the exception of the master employee eligibility file, GAO believes that the PPSSCC recommendations are reasonable. The costs of establishing and maintaining a master eligibility file for all government employees would, in GAO's opinion, exceed the benefits. Instead, Labor should work more closely with the agencies that employed the injured workers to ensure that only eligible employees receive benefits.

The development of a FEC-ADP system that identifies situations that deviate from norms will provide staff responsible for administering the FEC program with information for use in following up on employees who are receiving FEC benefits to determine if these employees are entitled to such benefits. However, GAO is concerned that the existing staff could be prevented from adequately following up on additional "targeted cases" because of the emphasis placed on adjudicating claims in a timely manner and on monitoring the existing FEC caseload.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO believes that Labor has the authority to implement these recommendations. Labor is designing and implementing a new ADP system that will attempt to automate, strengthen, and standardize many aspects of the FEC program. Efforts to automate the FEC program have been ongoing since the mid-1970s. Labor, in January 1984, awarded another contract for an upgraded FEC-ADP system that, when fully implemented, should result in a system that has the capability to identify cases and situations warranting more detailed review. Labor expects this system to be fully operational in the second quarter of fiscal year 1986.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO believes that the PPSSCC savings estimate may be overstated. PPSSCC estimated that 25 to 30 percent of the $380 million in increased compensation costs since 1966 could be saved by reducing the total number of disability cases or the average length of the disability. GAO questions the validity of comparing the number of long term disability cases 15 years ago with the current number of cases. Legislative changes liberalized the FEC program in 1966 and 1974.

The long term roll has already been reduced from the 48,000 cited by PPSSCC to about 45,800 in January 1984. Of the 45,800 cases, nearly 15,300 are either cases where employees have died or cases where the beneficiaries are over 65 years old. Benefit reductions are unlikely in such cases. For another 16,750 cases, benefits either (1) can not be adjusted because they represent awards specified by law for certain physical impairments, (2) have already been reduced by Labor, or (3) have been determined by Labor to not warrant reduction. Thus, for the PPSSCC estimated savings to be valid, further reductions of 4,800 to 6,200 cases would appear to have to come from the remaining 13,750 cases on the long term roll, a situation that GAO believes is unlikely.

V. RELEVANT GAO REPORTS

GAO/HRD 84-29	Labor Needs To Adjust Compensation Benefits It Pays Injured Federal Employees To Levels Appropriate To Their Disabilities (Mar. 26, 1984)

VI. GAO CONTACT

Joseph Delfico 275-6193

I. PPSSCC ISSUE AND SAVINGS

"What changes can make the Federal Employees Health Benefits Program (FEHBP) more cost effective while still maintaining adequate coverage?"

According to PPSSCC, the total cost of FEHBP exceeded private sector, non-manufacturing experience by 1 percent of the payroll, or $618 million in 1981. In that year, the federal government paid 62 percent of total cost, and employees paid the balance. PPSSCC estimated that adopting its recommendations should result in total savings of approximately $1,356.7 million the first 3 years following implementation.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC report makes 16 recommendations to make the FEHBP similar to private sector plans based on the conclusion that the private sector is more cost effective. In GAO's view, however, the report does not provide convincing evidence that the FEHBP is more expensive than private sector health plans because it does not demonstrate that private sector benefits or salaries are comparable to federal benefits or salaries. Some recommendations will result in cuts in enrollee benefits rather than improvements in program management. GAO believes that each recommendation has advantages and disadvantages. However, PPSSCC provided no basis for determining their ultimate merit and GAO has not done sufficient work to determine their impact.

In GAO's opinion, the PPSSCC recommendations do not address the fundamental health care reimbursement issues. For example, GAO has testified that the government should begin to adopt a more uniform approach for reimbursing health care providers that participate in government-financed health programs. Also, GAO believes that the basis for the recommendations--that FEHBP costs as a percent of payroll should be brought in line with private sector costs--masks an important difference between FEHBP and private sector health plans. FEHBP costs include employer and significant employee contributions while the private sector costs are primarily employer contributions. GAO believes a comparison distinguishing between employer and employee costs would shed additional light on differences between FEHBP and private sector health plans. GAO believes such a comparison would show that the significant difference is not in employer cost but rather in employee contributions. For example, information in the PPSSCC report indicates that the federal employee pays five times as much as private sector employees.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC report indicates that most of its recommendations can be implemented through administrative changes by the Office of Personnel Management (OPM) but some would require legislation. Contrary to what PPSSCC suggests, however, GAO believes that legislation would be required to establish a limit of 3 or 4 health maintenance organizations in a geographic area as recommended by the PPSSCC. Also, legislation would have to be amended to develop a system for acknowledging the different needs and experiences of employees and annuitants in benefits, premiums, and government contributions. Furthermore, administrative action that would limit health benefit coverage in employee association plans to regular members and annuitants as recommended by the PPSSCC, might require the support of legislation to minimize resistance to implementation.

Because implementation problems can adversely affect the results of well intended program changes, GAO believes that careful consideration should be given to the feasibility of implementing all the recommendations that affect the FEHBP. During our evaluation of the PPSSCC report we recognized potential problems with 12 of the 16 recommendations directed at modifying FEHBP. For example, the recommendation to limit coverage in employee association plans to regular members and annuitants would restrict competition. Furthermore, there would be difficulty in defining a regular member. Since OPM has taken the position in the past that the definition of membership is an employee organization matter, any attempt to reverse this precedent would be controversial.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The recommendations made are not and cannot be linked to the savings estimate of $1.36 billion. PPSSCC recognizes this fact when it states that--"The exact extent of savings cannot be ascertained. But the sooner the recommendations can be implemented, the sooner the savings can be realized." The "savings" were derived not through any estimates based on implementing recommendations but rather by suggesting that "if the cost of FEHBP as a percentage of payroll was reduced by 1 percent," then money would be saved. As indicated above, the PPSSCC report does not provide convincing evidence that private sector health plans are less costly than FEHBP.

V. RELEVANT GAO REPORTS

GAO/HRD-83-21	Financial And Other Problems Facing the Federal Employees Health Insurance Program (Feb. 28, 1983)
GAO/HRD-79-87	Stronger Management Needed To Improve Employee Organization Health Plans' Payment Practice (Sept. 7, 1979)
GAO/HRD-79-174	More Civil Service Commission Supervision Needed to Control Health Insurance Costs For Federal Employees (Jan. 14, 1977)
GAO/MWD/76-83	Federal Employees Need Better Information For Selecting A Health Plan (Jan. 26, 1976)

VI. GAO CONTACT

Michael Zimmerman 275-6195

LABOR 2: NEED TO EXPAND INVESTIGATION OF FEDERAL WORKERS' DISABILITY PAYMENTS

I. PPSSCC ISSUE AND SAVINGS

"Would it be cost effective to establish an investigative staff to identify Federal employees who collect compensation benefits while working in other jobs?

An estimated $8.5 million could be saved in the first year through the deployment of 10 additional, well trained and supervised investigators."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO agrees that face-to-face contact with beneficiaries on the long term compensation rolls can result in identifying beneficiaries who may not be entitled to benefits. GAO also agrees that it could be advantageous for investigators to be assigned to the Federal Employees' Compensation (FEC) program full time rather than part-time. Under a full time arrangement, investigators would not have dual responsibilities and, in all likelihood, more FEC cases could be reviewed.

PPSSCC recommended that Labor (1) extend its temporary program of using Wage and Hour Division employees to investigate Federal Employee's Compensation Act cases and (2) authorize the establishment of a similar investigative force under the control and supervision of the Office of Federal Employees' Compensation. After comparing the results of the two investigative groups, Labor should authorize the permanent establishment of the most effective group.

While face to face investigations can result in identifying ineligible recipients, GAO believes that the long term cost effectiveness of establishing such a staff on a permanent basis, irrespective of its organizational location, would need to be considered.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO believes that Labor has the authority to implement the PPSSCC recommendations. In fiscal year 1985, Labor expects to establish a permanent capability to investigate cases on the long term roll. The establishment of an investigative force that has face-to-face contact with beneficiaries would, in GAO's opinion, appear to appropriately supplement Labor efforts to establish an automated system that would identify situations that deviate from norms (see LABOR-1).

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

PPSSCC estimates cost savings of $8.5 million in the first year of implementation. These savings are also included in the PPSSCC's savings estimate for issue LABOR-1. The PPSSCC estimate is premised on an investigator being able to investigate 22 cases per month.

FEC cases are located throughout the nation. GAO believes that investigators may have difficulty in investigating 22 cases per month when such activities as (1) review of the case file, (2) travel and investigative time, and (3) report preparation time are considered. While some savings will result, GAO has no basis to judge whether the savings estimate is realistic.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

Joseph Delfico 275-6193

PER 16: PRODUCTIVITY

I. PPSSCC ISSUE AND SAVINGS

"Should the federal government establish a central office designated with the responsibility to promote and coordinate formal, visible programs for productivity improvements throughout its operations?"

A 1984 GAO report states: "If the overall federal productivity could be increased by 10 percent, personnel costs could be reduced by more than $8 billion per year without a cutback in services." A more conservative PPSSCC estimate, using the fiscal year 1982 federal compensation costs of $63.6 billion and a productivity increase of 5 percent, indicated a potential reduction in personnel expenses of $3.18 billion per year for a total of $10.52 billion (adjusted for inflation) over a 3-year period.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The need for a central focus on productivity improvement called for by the PPSSCC has been documented in GAO reports. In a 1984 GAO report on productivity management in the federal government, GAO found little central management support and encouragement for productivity, as indicated by the recent elimination of governmentwide productivity programs. GAO recommended that the Director, Office of Management and Budget (OMB), encourage and support productivity improvement throughout government by (1) building on existing OMB Circular A-11 requirements to require federal departments and agencies to specify productivity plans and goals in their budget requests, (2) requiring the heads of departments and agencies to establish productivity management efforts, and (3) ensuring that technical assistance is available to departments and agencies for developing productivity measures and management efforts and for meeting productivity goals.

These recommendations were based on findings that federal productivity was improving at rates much lower than that experienced by many private and public organizations that have focused on productivity improvement. In addition, GAO and the PPSSCC found that productivity improvement in the federal government could produce billions of dollars in savings.

GAO concurs with the PPSSCC's five recommendations for greater OMB and Office of Personnel Management (OPM) attention to productivity and the need for more incentives and accountability for productivity. These recommendations are supported in the GAO reports that have examined productivity governmentwide and in various program areas.

Productivity improvement offers opportunities for cost reduction in the federal government, but it is not being adequately addressed. Some sort of central management assistance and support--at OMB or elsewhere--is clearly needed.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC recommendation that an executive order from the President would give OMB and OPM the authority to design and implement the establishment of productivity improvement units in their respective organizations. The OMB Associate Director for Management told GAO that the Reagan Administration plans to implement the recommendations. OPM has announced plans to issue regulations scheduled for implementation on July 1, 1985, for the productivity recommendations which pertain to it.

IV. GAO ANALYSIS OF SAVINGS ESTIMATES

The savings estimates provided by the PPSSCC appear reasonable in light of estimated savings GAO projected in a 1984 report, although they cannot be fully supported and represent projections based on assumed increases in productivity.

GAO's 1984 productivity management report suggested that a 5-percent increase in productivity could produce a 1-year savings of about $4.5 billion. The PPSSCC, using a smaller estimate of federal compensation costs, projected 1-year savings from a 5-percent increase in productivity of about $3.2 billion, and 3-year savings of $10.5 billion (adjusted for inflation). What is most important is that the PPSSCC and GAO show significant opportunities for reducing federal costs through productivity improvement.

V. RELEVANT GAO REPORTS

GAO/AFMD-84-11	Increased Use of Productivity Management Can Help Control Government Costs (Nov. 10, 1984)
GAO/FPCD-81-24	Ways to Improve Federal Management and Use of Productivity Based Reward Systems (Dec. 31, 1980)
GAO/FGMSD-79-9	Does the Federal Incentive Awards Program Improve Productivity? (Mar. 15, 1979)

GAO/FGMSD-78-33	Improving Federal Agency Efficiency Through the Use of Productivity Data in the Budget Process (May 10, 1978)

V. GAO CONTACT

Brian Usilaner 275-5074

ARMY 16 AND EX 4: ORGANIZING FOR COST CONTAINMENT

I. PPSSCC ISSUE AND SAVINGS

"Can the Department of Defense's organization for and implementation of its cost containment programs be made more effective?"

A total 3-year savings of $891.6 million was estimated for the Army. DOD-wide savings were estimated at $1.1 billion.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO believes the PPSSCC issue has merit. The Army and the rest of DOD have fragmented cost containment programs. Most, if not all, productivity enhancing programs are cost containment programs. GAO has said that productivity enhancing programs need top management attention and support in order to be successful. With the largely disjointed implementation of these programs, they are not as effective as they could be if they were centrally managed and coordinated and received top management attention.

GAO believes that the following five of the seven recommendations made in issue Army 16 have merit: (1) savings from cost containment initiatives that have multi-year impact should be allowed to remain in a unit's budget for more than 1 year; (2) the Army should establish a management program committee with the Director of Management Resources, the Comptroller of the Army, the Director of Program Analysis and Evaluation, and the Director of Management as members; (3) funds for productivity investments should be set aside ("fenced") so that these investments do not have to compete with mission-oriented expenditures; (4) the formulas and procedures prescribed in Army Regulation AR5-4 for setting priorities for productivity investment proposals should be revised to reflect the time value of money; and (5) timely and regular postinvestment audits of the programs should be implemented to ensure that the programs maintain a level of credibility necessary to obtain continuous funding. GAO reported on the need for changes of the type contained in these five recommendations in prior reports listed below under "Relevant GAO Reports."

GAO disagrees with the remaining two recommendations. In the first recommendation the PPSSCC recommended that the Secretary of the Army establish a Directorate of Management Resoures at the Army staff level to provide advocacy and coordination of cost containment programs. GAO believes the Army has complied with the intent of this recommendation by establishing a Resource Management Analysis Division of the Resource Management Directorate within the Office of the

Comptroller of the Army. This division was established to serve as a focal point for program integration. GAO believes the effectiveness of this organization should be evaluated before a new organization is established.

The other recommendation opposed by GAO proposes that the Army Audit Agency (AAA) create a mechanisim to review independently, on a spot basis, the appropriateness of a manager's decision whether or not to participate in specific programs. GAO does not believe the AAA should influence a manager's decision to participate or not participate in specific programs. The AAA however, should validate claimed savings by performing postaudits.

The PPSSCC issue Ex 4 contains recommendations similar to issue Army 16. GAO comments apply to issue Ex 4 as well as to Army 16.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC stated that the Secretary of the Army and the Army Chief of Staff have the authority to jointly promulgate a regulation establishing the Directorate of Management Resources.

GAO believes that the Army has the authority to create a new organization, headed by a general officer, such as the PPSSCC recommended. However, the Army has, in GAO's estimation, complied with the intent of the recommendation by establishing, within the Office of the Comptroller of the Army, a Directorate of Management Resources to provide advocacy and coordination of productivity programs.

GAO believes that the other recommendations contained in issue Army 16 could be accomplished by executive action.

IV. ANALYSIS OF SAVINGS ESTIMATES

GAO does not believe the PPSSCC savings estimates are realistic. In prior GAO reports on DOD's Productivity Enhancing Capital Investment Program, GAO found that many of the estimated savings were for projects that would only replace worn-out pieces of capital equipment with equipment that would not increase productivity. Further, many estimates were unsupported and could not be analyzed. Also, the PPSSCC's use of a 10-percent inflation rate is questionable. Therefore, while savings from the PPSSCC's proposals would undoubtedly occur, GAO believes that the estimated savings would be less than the $1.1 billion estimated by the PPSSCC.

V. RELEVANT GAO REPORTS

GAO/PAD-83-1	Pros and Cons of a Separate Capital Budget for the Federal Government (Sept. 22, 1983)
GAO/AFMD-81-43	Incentive Programs to Improve Productivity Through Capital Investment Can Work (Apr. 20, 1981)
GAO/FGMSD-78-44	Full Potential to Achieve Savings by Investing in Fast Payback Productivity Enhancing Capital Equipment not Realized (July 25, 1978)
Unnumbered	Analysis of Productivity Enhancing Capitol Investment Opportunities, Joint Civil Service Commission, GAO, OMB Report (Sept. 1973)

VI. GAO CONTACT

Brian Usilaner 275-5074

LABOR 4: PRODUCTIVITY MEASUREMENT AND IMPROVEMENT

I. PPSSCC ISSUE AND SAVINGS

Can productivity measurement and improvement programs result in cost savings for the Department of Labor (DOL)?

Developing quantitiative standards for measuring productivity and encouraging a program for productivity improvements have a potential for yielding savings of $50.3 million over the next 3 years.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO is currently making an evaluation of productivity in DOL as part of a comprehensive management review. In addition, during the past few years GAO has completed two reviews in DOL which addressed the issue of productivity of either a federal, state, or local office in processing claims--one under the Unemployment Insurance Program and the other under the Federal Employees Compensation Act. Both reviews showed that opportunities exist to improve productivity by adopting the best processing practices, automation methods, staffing plans, and management approaches used by the most productive offices.

Generally, GAO is in agreement with the PPSSCC recommendations on productivity. As mentioned above, these recommendations focus on extending quantitative measures throughout the Department. Since, currently, such measures exist for only about half the Department's positions, the need for developing new measures is apparent. Quantitative and/or qualitative measures do not exist for about 9,000 positions in DOL.

PPSSCC recommendations 4-1, 4-2, and 4-3 call for extensive work measurement and work sampling activities throughout DOL, starting with the Employment and Training Administration. The basic purpose of these activities is to improve employee control of the quantity of output, and extending such control to a larger percentage of the Department. GAO feels that this would be a step in the right direction, but, that attention must also be paid to the development of quality of service measures. In other words, not only are we doing things right but are we doing the right things? PPSSCC recommendations 4-4, 4-5, 4-6, and 4-7 address productivity improvements. Each of these recommendations is needed and important. Basically they call for the development of systems and approaches to implement productivity improvement ideas and/or projects. GAO strongly supports these recommendations.

GAO believes that there should be a closer link between the performance appraisal system and individual productivity measures. DOL's current system evaluates and rewards performance based, in many instances, on activities and inputs; rather than, outputs and results.

III. GAO ASSESSMENT OF IMPLEMENTATION, AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC view that DOL has the authority to implement its recommendations associated with this issue is valid. The recommendations can be implemented by DOL without legislative action or external approvals. The only substantive action taken by the Department in response to the PPSSCC report has been reissue of an order on productivity.

IV. GAO ANALYSIS OF SAVINGS ESTIMATES

GAO cannot express an opinion on whether the savings estimate is realistic primarily because the PPSSCC report did not present sufficient information to allow for adequate evaluation of the estimate. The estimate is based on the savings realized by companies in the private sector which (1) developed and used quantitative standards for measuring productivity at the individual employee level and (2) established and carried out productivity improvement projects. These initiatives yielded a payroll savings of at least 5 percent. The PPSSCC assumption that a similar 5 percent payroll savings would be realized by Labor by adopting such initiatives, while seeming to be reasonable, is not substantiated by a specific breakdown of where the cost savings will occur. Furthermore, the PPSSCC's position that a work measurement program can be developed without aditional cost because existing staff would be reallocated to do the work is not realistic. The PPSSCC does not recognize that the normal work output of the reallocated staff would not be accomplished during the time it takes to develop the program. GAO believes that the staff costs incurred in the development, testing, implementation, and coordination of productivity measurement and improvement programs should be recognized and offset against cost savings derived from such programs.

V. RELEVANT GAO REPORTS

GAO/HRD-85-8	A Comprehensive Approach Needed For Further Productivity Improvements in the Unemployment Insurance Program (Oct. 25, 1984)

GAO/AFMD-83-72 The Best FECA Practices Could Raise Productivity if Implemented at All FECA Offices (Sept. 27, 1983)

VI. GAO CONTACT

Bernard Ungar 523-8706

TREAS 2: COST/BENEFIT OF IRS PERSONNEL ADDITIONS

I. PPSSCC ISSUE AND SAVINGS

"Can benefits result from the use of a comprehensive methodology that accurately and consistently determines the tangible costs and benefits of personnel additions?"

The PPSSCC could not quantify savings for this issue. However, this issue was used to recommend methodology for realizing the savings associated with issues TREAS 1 and TREAS 7. The PPSSCC also expects this issue to produce intangible benefits, including a better budget approval process and better management information for decision support.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

It is important for any organization to use the best information and methodology practical to make decisions on its workforce levels and allocation of personnel. Therefore, GAO agrees with the thrust of the PPSSCC recommendation that the Deputy Secretary of the Treasury authorize the design and implementation of a comprehensive computerized staffing model for IRS. In fact, GAO has recommended that IRS develop the necessary management information to allow inter- and intraprogram determination of costs and benefits of staffing allocation.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that this recommendation does not require specific legislative action, although funding for its implementation would need to be approved by Congress through the appropriations process. GAO knows of no other factors that affect the feasibility of implementing this recommendation. IRS is currently exploring the feasibility of implementing the PPSSCC recommended system.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC was unable to quantify savings for this issue. GAO also has no basis for estimating any savings for this issue.

V. RELEVANT GAO REPORTS

GAO/GGD-83-63	With Better Management Information, IRS Could Further Improve Its Efforts Against Abusive Tax Shelters (Aug. 25, 1983)

GAO/GGD-82-34	Further Research Into Noncompliance Is Needed To Reduce Growing Tax Losses (Jul. 23, 1982)
GAO/GGD-82-4	What IRS Can Do To Collect More Delinquent Taxes (Nov. 5, 1981)
GAO/FPCD-81-14	Better Use Can Be Made of Federal Professional Staff (Dec. 31, 1980)

VI. GAO CONTACT

Johnny Finch 275-6407

FMS 8: COMMUNICATIONS WITHIN THE EXECUTIVE BRANCH, ORIENTATION OF APPOINTEES

I. PPSSCC ISSUE AND SAVINGS

"Can the effectiveness of Executive Branch agencies and departments be increased by a more comprehensive orientation program for executive level appointees?"

The PPSSCC projected no cost savings.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATION

The PPSSCC recommended establishing a comprehensive orientation program for executive level appointees. While GAO has not performed work in this area, there is a growing body of literature on the importance of orienting top executives on the responsibilities of their positions and the environment in which they will function which supports the merit of this recommendation. For example, the National Academy of Public Administration 1983 study entitled America's Unelected Government stated that: "All noncareer executives can benefit from participation in a program that introduces them to the political environment in which they will be operating;...how to survive and prosper in that environment; and...provides basic information on such things as the media, the annual budget cycle, the nature of decisionmaking in Congress, the structure of the White House, and the character of the career service."

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that this recommendation can be implemented without legislation. The PPSSCC notes that some orientation and training programs are being conducted by the White House for appointed officials, including a White House orientation and an introduction to policy issues presented by the Harvard University faculty.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO agrees with the PPSSCC's report that it is not possible to accurately estimate savings.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

Gene Dodoro 275-8387

FMS 9: COMMUNICATIONS WITHIN THE EXECUTIVE BRANCH--SURVEY FEEDBACK SYSTEMS

I. PPSSCC ISSUE AND SAVINGS

"Can a system be implemented in the Executive Branch to elicit employee opinions and provide feedback data to senior agency management?"

The PPSSCC projected no cost savings.

II. GAO ANALYSIS OF ISSUES AND ASSOCIATED RECOMMENDATION

The PPSSCC recommended establishing survey feedback mechanisms in executive branch departments and agencies. GAO concurs with the PPSSCC's statement that the use of survey feedback has been accepted in the private sector as a standard method of obtaining organizational data concerning the general climate and employees' attitudes. GAO has used survey feedback systems periodically for several years and found them useful for identifying issues needing management attention and involving staff in helping to influence their work environment.

For such systems to be effective, however, management should be commited to getting employee positions and opinions on the workplace and then taking actions on the results of the survey. In addition, employees need to know that management really wants their views and is willing to sit down and discuss workplace issues from the employees' perspective. Without this commitment and action, employees will become frustrated that their opinions were requested but not acted on.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY AND STATUS

GAO concurs that this recommendation could be implemented without further legislation, but it is not aware of any action being taken centrally to encourage departments and agencies to establish survey feedback mechanisms. GAO believes the departments and agencies should be responsible for developing their own programs because only they are in a position to make them work. The agencies should also be responsible for obtaining the necessary training and outside support, rather than having technical assistance provided by OPM as recommended by the PPSSCC.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO agrees with the PPSSCC report that it is not possible to accurately estimate savings. While GAO agrees with the PPSSCC that survey feedback systems can generate savings through early warnings of developing workforce

problems and reduced employee turnover, agencies should be prepared to incur costs for questionnaire development, administration, and analysis. In addition, management's time and energy are required for discussing survey results with employees and then taking needed actions to address employee concerns.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

Gene Dodaro 275-8387

PER 13: INSTRUCTIONAL TELEVISION PRODUCTION FACILITIES

I. PPSSCC ISSUE AND SAVINGS

Should the Office of Personnel Management (OPM) act as "broker" and coordinate the utilization of the approximately 25 separate government-operated television studios in the Washington, D.C. and Baltimore area?

The PPSSCC estimated at least $24.9 million could be saved in the next three years by centralizing purchase of services and products.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC found that government TV production facilities were underutilized. According to the PPSSCC's analysis, 18 in-house productions reduced costs by $1 million through sharing of equipment and technical expertise, as suggested by OPM. The PPSSCC recommended that OPM (1) serve as a "broker" to match user needs with the most appropriate TV studios, (2) develop a simplified contracting system to facilitate the studios working with the brokering group for services, and (3) set up a simplified accounting and funding system to serve the operation.

GAO has not reviewed these particular activities, but it seems reasonable to expect that economies could be achieved if one agency exercised a coordinating or clearinghouse function to increase resource-sharing activities and centralize procurement. Assuming that the work produced by these government-owned television studios is to a large extent related to personnel matters, OPM would be the logical choice as the government's "broker" for these services.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that its recommendations can be implemented through executive action. As the PPSSCC recognizes, OPM will need to work closely with OMB and GSA.

Although the idea of a centralized brokering system to match user needs with the appropriate TV studios has merit, OMB may need to initially examine the need for each of the 25 government-operated television studios identified by the PPSSCC in the D.C./Baltimore area. Questions

also remain whether the private sector could provide these services more efficiently and for less cost than the government.

OPM provided GAO with information only about recommendations it had already endorsed publicly. No information was provided for the recommendations under this issue.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC's savings estimate is questionable. The savings are based on a comparison of actual with budgeted costs. The PPSSCC analyzed 18 productions that used OPM's resource-sharing approach and found that costs were held to 83 percent of their original budgets. The percentage of costs saved was then applied to total 1981 expenditures for audiovisual materials and adjusted for inflation. The difference between production costs and budgets might well be attributable, however, to over-budgeting rather than to cost reductions. Furthermore, there is no indication of the relationship of the 18 productions selected for review to the total annual workload, or disclosure of how the 18 productions were selected for review.

V. REVELANT GAO REPORTS

None

VI. GAO CONTACT

Rosslyn Kleeman 275-6204

PER 14: DUPLICATION OF SUPERVISORY TRAINING

I. PPSSCC ISSUE AND SAVINGS

Can a more centrally guided effort, under the direction of the Office of Personnel Management (OPM), deliver better quality, lower cost management training programs?

The PPSSCC estimated cost savings of over $20 million per year for a total of $66 million, adjusted for inflation, over a 3-year period.

II. GAO ANALYSIS OF ISSUE AND RECOMMENDATIONS

GAO agrees, in principle, that a more centrally controlled effort by OPM has the potential for improving the delivery of management training programs. The PPSSCC recommended that OPM conduct a major study to determine what kinds of generic training for supervisors will meet agencies' needs and that OPM then develop the courses. That study may not be necessary. OPM needs first to assess current efforts that support the concept of generic training for supervisory skills.

GAO concurs with the PPSSCC's recommendation that OPM serve as a clearinghouse for supervisory training programs. To some degree OPM already provides a limited form of this service through its interagency training programs. Agencies would benefit from a more systematic, aggressive approach by OPM for disseminating this training information. GAO agrees that agency requests for proposals and contracts for developing supervisory training programs should be centrally controlled to prevent duplication.

Since the PPSSCC did not identify any problem with the capability of the agencies' supervisory training course instructors, it may be premature for OPM to enter the business of certifying agency instructors, as recommended by the PPSSCC. In addition, the PPSSCC did not demonstrate the need for OPM to develop an auditing system to ensure that agencies enroll supervisors in basic supervisory courses.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that its recommendations could be implemented through executive action. OPM has

already supported the generic training concept in its recent efforts to streamline and update its supervisory courses and to help federal managers identify skills needed by first-line supervisors. It is developing a process--called the "Supervisory Excellence Inventory" (SEI)--that will help managers identify their first-line supervisors' developmental needs. The SEI will help these supervisors focus on supervisory skills they need most. In addition, OPM already has courses available that address basic or generic types of supervisory skills common to all first-line supervisors.

OPM provided GAO with information only about recommendations it had already endorsed publicly. OPM stated that the PPSSCC's recommendations for determining the kinds of generic supervisory training meet agencies' needs, developing courses, and training the instructors have been implemented totally or partially.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC acknowledges that precise cost savings based on its work cannot be stated at this time. GAO agrees. The PPSSCC's estimate is based on interviews with agency training officers and a random review of fiscal year 1981 contracts for training services that exceeded $10,000. The PPSSCC identified "a number of contracts" that it considered off-the-shelf and generic in nature. The PPSSCC did not identify how it calculated estimated savings.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

Rosslyn Kleeman 275-6204

ED 8: PERSONNEL AND TRAINING

I. PPSSCC ISSUE AND SAVINGS

Could changes in the delivery of personnel and training services result in more effective human relations and reduction in the Department of Education personnel costs?

The PPSSCC estimates that improvements in the delivery of personnel and training services could result in net cost savings of $32.1 million over 3 years.

II. GAO ANALYSIS OF ISSUE AND RECOMMENDATIONS

GAO agrees with the general thrust of the PPSSCC recommendations for improving the delivery of personnel and training services in the Department of Education. However, GAO does not agree with certain approaches suggested by the PPSSCC. The PPSSCC's recommendations cover a number of unrelated areas: size of staff, centralization of personnel functions, payroll administration, job classification, and training.

The PPSSCC recommended that tight budgets and personnel ceilings should be substituted for the departmental employment freeze. GAO is opposed to the use of personnel ceilings as a staffing control device. GAO has found that ceilings have an adverse impact on agency operations in a number of ways, such as causing staffing imbalances and reductions in services and necessitating disruptive reductions in force. The size of agencies' staff and associated personnel costs should be based on sound estimates of staffing requirements and, as the PPSSCC suggests, controlled through the budget process.

GAO has no information to judge whether the personnel management function should be decentralized.

The PPSSCC recommended that the Department use outside assistance to expedite the transition from one payroll system to another. GAO has found that generally, the Department has had a smooth transition from the Health and Human Services' (HHS) payroll system to Interior's payroll system. GAO recognizes that when changing from one system to another, some problems do arise. However, GAO believes that the Department's problems do not warrant any outside assistance.

Although GAO supports efforts to minimize overgrading, (employees in positions at a higher grade level than can be supported by federal classification standards), it has no information on whether there is an overgrading problem at

the Department. GAO believes that an accurate assessment of the Department's classifications process is an important first step in determining whether this situation exists.

GAO believes it would be prudent for the Department to adopt the PPSSCC recommendation to improve the organization of its training centers. The Department has recently undergone many changes in reassessing its mission and re-aligning its resources. GAO believes it would make sense as a sound management practice to (1) redefine its training center's responsibilities, (2) prioritize the most critical work to be accomplished, and (3) allocate available funds accordingly.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees that implementation of the PPSSCC recommendations can be accomplished through executive branch action.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

To estimate savings, the PPSSCC obtained Department officials' views on cost reductions from improving personnel and training services. The PPSSCC then used the lowest savings estimates and concluded that one-third of the savings estimate would be realized. In GAO's opinion the PPSSCC savings estimate is not based on sufficiently sound estimating techniques.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

Rosslyn Kleeman 275-6204

PER 18: WORK FORCE PLANNING

I. PPSSCC ISSUE AND SAVINGS

"Should the federal government have a uniform work force planning method for use within the agencies?"

Specific cost savings were not estimated but the PPSSCC believes savings would be significant.

II. GAO ANALYSIS OF ISSUE AND RECOMMENDATIONS

GAO agrees that work force planning needs more emphasis throughout the federal government. The methods and procedures used by federal agencies to determine work requirements and staff needs should be very important aspects of personnel management. GAO has stated in a number of reports that Congress and administration leadership should strive for a high-quality work force planning capability in each federal department and agency.

The PPSSCC's recommendations are very similar to those made previously by GAO. However, the PPSSCC minimizes the effects of historical constraints on work force planning--personnel ceilings, hiring and promotion freezes, etc. GAO has found that these actions are barriers to effective work force planning and believes they should be eliminated. Further, corresponding revisions are needed in the federal budget process to better identify total work force costs. GAO found that costs for the indirect (contract) work force are not clearly identified in the budget.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO and the PPSSCC concur that a work force planning policy could be developed by the Office of Personnel Management (OPM) and the Office of Management and Budget (OMB) without legislation. OPM informed us that development of a work force planning policy began in fiscal year 1984 and is continuing.

IV. ANALYSIS OF SAVINGS ESTIMATE

Although the PPSSCC did not estimate specific cost savings, GAO agrees with the PPSSCC that improved work force planning could result in significant savings.

V. RELEVANT GAO REPORTS

GAO/FPCD-81-54	Improving the Credibility and Management of the Federal Work Force through Better Planning and Budgetary Controls (Jul. 17, 1981)
GAO/FPCD-81-4	Federal Work Force Planning: Time for Renewed Emphasis (Dec. 30, 1980)
GAO/FPCD-80-36	Handbook for Government Work Force Requirements...A Guide and Checklist For Forecasting How Many Workers Government Agencies Need (Jan. 28, 1980)

VI. GAO CONTACT

Rosslyn Kleeman 275-6204

I. PPSSCC ISSUE AND SAVINGS

Minimum requirements in personnel ceilings in the executive branch should be repealed.

The PPSSCC did not estimate cost savings with this proposal.

II. GAO ANALYSIS OF ISSUE AND RECOMMENDATIONS

The PPSSCC recommends that the President should submit legislation to repeal existing minimum requirements on personnel ceilings. GAO agrees that personnel ceilings, minimum or maximum, should not be used by Congress or the Office of Management and Budget to control the size of an agency's work force. However, the PPSSCC does not recommend any alternative to the use of personnel ceilings. GAO has recommended in a number of reports that staffing levels should be controlled by establishing budget limitations based on sound work force requirements' determinations. This method would provide a more practical and effective means of control and would not arbitrarily restrain an agency from using the most appropriate work force alternatives to accomplish its programs and functions.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that Congress would have to repeal legislatively established minimum personnel ceilings. In addition, GAO believes that the Office of Management and Budget should stop using personnel ceilings to control the size of an agency's work force. GAO is not aware of any executive branch proposals or congressional initiatives for legislation to repeal existing minimum personnel ceilings.

IV. ANALYSIS OF SAVINGS ESTIMATE

No cost savings were estimated by the PPSSCC.

V. RELEVANT GAO REPORTS

GAO/FPCD-81-54	Improving the Credibility and Management of the Federal Work Force Through Better Planning and Budgetary Controls (Jul. 17, 1981)

GAO/FPCD-76-88 Personnel Ceilings--A Barrier to Effective Manpower Management (Jun. 2, 1977)

VI. GAO CONTACT

Rosslyn Kleeman 275-6204

ADP 7: ADP PERSONNEL RECRUITMENT AND MANAGEMENT

I. PPSSCC ISSUE AND SAVINGS

Will improving the government's ability to hire and retain skilled automated data processing (ADP) personnel result in significant cost savings?

The PPSSCC was not able to quantify projected savings expected to result from implementation of its recommendations.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC proposal is aimed at improving federal efforts to attract and retain quality ADP personnel. To accomplish improvements, the PPSSCC recommends streamlining classification systems, standards, and the hiring process as well as reducing salary lags by increased use of cash awards for performance. GAO agrees that agencies and the Office of Personnel Management (OPM) should work together to assess and improve personnel systems and to share the results of their assessments and pilot programs. Such improvements may include streamlining classification systems, standards, and the hiring process. This cooperative effort can contribute to governmentwide initiatives to address the attracting and retaining problems in all affected occupations. GAO also agrees with the use of cash awards as an incentive for performance. Such awards can encourage improved performance and can reduce salary lags.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC report states that the recommendations require management action by the Office of Management and Budget, the General Services Administration, OPM, and individual agencies for implementation. GAO agrees. OPM has initiated a study of the entire classification process including the development of standards. GAO believes implementation of the recommendations is feasible and will be enhanced with the November 1984 revisions for cash awards in the revised merit pay program.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO recognizes the potential benefits from improvements in hiring and classification/compensation and agrees that such possible savings would be difficult to quantify.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

Rosslyn Kleeman 275-6204

LABOR 10: CONTROLLING CAREER LADDER PROMOTIONS

I. PPSSCC ISSUE AND SAVINGS

Can career ladder professional and administrative positions in the Department of Labor (DOL) be administered in a way that will control promotional cost and motivate performance improvements?

The PPSSCC estimates that $1.8 million could be saved in the second year after implementation by directly relating promotions to professional and administrative employees' overall performance. The savings estimate is based on 13 of the 104 series (job occupations) which have career ladders in DOL. Additional savings would be achieved with respect to the job series not specifically studied.

The PPSSCC also believes this would serve as a motivational tool for improving productivity which could generate additional savings in manpower and dollars. The latter savings potential, while not measured in this issue, could prove to be even more significant, according to the PPSSCC.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The major issue in the PPSSCC's recommendation seems to focus on performance as the primary basis for compensating and motivating career ladder employees which in turn should help the agency save money. Specifically, the PPSSCC believes that by varying the timing of career ladder promotions using performance as the basis, DOL would (1) realize significant cost savings, (2) appropriately recognize its top-rated performers by rewarding them with quicker promotions, and (3) motivate DOL employees to improve their performance, thus enhancing productivity which would generate even more savings. While GAO endorses the principle of performance pay incentives, it believes that such a system should be established in conjunction with OPM--the agency responsible for assuming the leadership role in developing performance incentives.

The PPSSCC believes that DOL is not adequately controlling the timing of career ladder promotions to recognize differences in employee performance. Accordingly it recommended that DOL (1) better control career ladder promotions by directly relating promotion timing to individual performance, and (2) recommend to the Office of Personnel

Management (OPM) that once developed, DOL's policies and procedures serve as a general guide for all departments in the government.

Concerning the first recommendation, GAO has not reviewed DOL's administration of career ladder promotions but agrees in principle with the PPSSCC that employee performance should be a key factor for determining compensation of DOL career ladder employees. In fact, the Civil Service Reform Act (CSRA) of 1978 requires that performance appraisals should be used as a basis for a variety of personnel actions, including promotions. However, establishing a promotion system such as the one described by the PPSSCC will require careful consideration of procedures for maintaining fairness and consistency for all affected employees and for evaluating the system's impact and usefulness as a motivational tool. GAO also believes there are many factors affecting the design of such a system of which agencies should be aware. For instance, while varying promotional timing can be a means of increasing employee motivation, it will not necessarily guarantee that increased motivation will occur in all cases. Also, if promotions are delayed significantly, recruitment and retention of career ladder employees could be adversely affected.

GAO believes that the second recommendation which states that whatever promotion system DOL designs should serve as a general guide for the rest of the federal government may not be appropriate. In GAO's opinion, OPM, rather than DOL, should develop a framework within which fair and consistent promotional guidelines could be established and applied to career ladder employees throughout the federal government. DOL and other agencies could then work closely with OPM to fine tune their career ladder promotion systems to deal with any unique circumstances.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The authority to implement the PPSSCC's recommendations exists in the CSRA and in the regulations and guidance OPM has provided to federal agencies for establishing their performance appraisal systems.

OPM has proposed regulations for establishing a governmentwide performance management system. Agencies would be required to give first consideration to promoting career ladder employees who have the highest summary ratings when it is not possible to promote all eligible

employees at the same time within the same career ladder. These regulations which had been enjoined from being implemented by the U.S. District Court are now due to become effective in July 1985.

As of July 1984, DOL had developed general management guidance to stress the importance of relating career ladder promotions to individual performance. This guidance also provides for the implementation of a monitoring system which will gather statistical information so that career ladder promotions can be more closely tracked.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

It is difficult to determine whether the savings identified are realistic. The PPSSCC's estimated cost savings of $1.8 million is based on data for the Bureau of Labor Statistics (BLS) which was the only DOL information readily available at the time the study was conducted. The promotion experiences at BLS do not necessarily parallel those at other DOL agencies. Also, it is not exactly clear how the PPSSCC developed its sample promotional timing guide or how that guide was applied in computing cost savings.

V. RELEVENT GAO REPORTS/TESTIMONY

GAO/GGD-83-72	New Performance Appraisals Beneficial But Refinements Needed (Sept. 15, 1983)
Testimony:	Merit Pay Reform Act of 1983 and Proposed Amendments, by William J. Anderson, General Government Division, before the Senate Committee on Governmental Affairs, Subcommittee on Civil Service, Post Office and General Services (July 14, 1983)

VI. GAO CONTACT

Rosslyn Kleeman 275-6204

USAF 6: CIVILIAN END-STRENGTH CEILINGS

I. PPSSCC ISSUE AND SAVINGS

Are civilian end-strength ceilings an effective tool for the Air Force?

The PPSSCC estimated that removing ceilings would result in 3-year cost savings of $96 million.

II. GAO ANALYSIS OF ISSUE AND RECOMMENDATIONS

GAO agrees with the PPSSCC recommendation to eliminate the use of personnel ceilings as a means of controlling the size of the Air Force staff. GAO and other federal groups have examined the use of personnel ceilings in the federal government and have questioned their value as a staffing control device. Personnel ceilings are not normally based on detailed analyses of workload and work force requirements. Instead, they are usually based on past staffing levels. Substantial evidence has been provided to support the elimination of ceilings. GAO has found that ceilings have a direct adverse effect on federal agencies in several ways, including reduced services to the public as well as to other agencies; increased work backlogs resulting from work being deferred and in some instances work being cancelled; staffing imbalances between clerical and professional personnel and shortages in certain skills; increased use of overtime; increased use of contract services and grants to state and local governments. Sound work force requirements estimates and the budget process can provide the needed control over the direct federal work force and give management the flexibility to make more efficient and effective staffing decisions.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees that the implementation of the PPSSCC's recommendation can be accomplished through congressional and executive branch action. End-strength ceilings on civilian personnel have been placed on the Department of Defense by the Office of Management and Budget (OMB) and Congress. However, in the fiscal year 1985 Defense budget, Congress removed end-strength ceilings on civilian personnel. GAO does not know whether OMB will take similar action.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO agrees that savings would accrue in the areas identified by the PPSSCC but has no information for judging the accuracy of the PPSSCC's savings estimates.

V. RELEVANT GAO REPORTS

GAO/FPCD-81-54	Improving the Credibility and Management of the Federal Work Force Through Better Planning and Budgetary Controls (Jul. 17, 1981)
GAO/FPCD-76-88	Personnel Ceilings--A Barrier to Effective Manpower Management (Jun. 2, 1977)

VI. GAO CONTACT

Rosslyn Kleeman 275-6204

I. PPSSCC ISSUE AND SAVINGS

Can Air Force procurement of management advisory (consulting) services and research be improved?

The PPSSCC estimated that implementing its recommendations would yield $68.8 million in savings for the first year and an estimated $227.7 million over the three year period.

II. GAO ANALYSIS OF ISSUE AND RECOMMENDATIONS

The PPSSCC made four recommendations to improve Air Force managerial controls over procurement of consulting services. Generally, the PPSSCC recommendations direct the Air Force to establish a control system to more closely monitor the awards of consulting service contracts and impose a more standardized system for evaluating and monitoring the need for consulting services. Prior GAO reviews have shown that the Air Force, as well as other federal agencies, can improve their procurement of consulting services. For example, in a March 31, 1981, report, GAO found that the Air Force and other Defense agencies needed to obtain more competition when procuring these services and more closely review proposed contract awards to assure that the contract services were needed and would be used. Current GAO work shows that the Air Force has relied more heavily on sole source procurement for these services since GAO's 1981 report was issued. GAO agrees with the PPSSCC therefore that a more systematic approach for dealing with the problem and more oversight should result in improved management of these services.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees that the implementation of three of the four PPSSCC recommendations can be accomplished through executive branch action. The fourth recommendation is to give the Office of the Secretary of Defense authority to withhold funds from the Air Force equal to those found by an independent review board to have been misspent in any procurement for consulting services. It is not clear from the PPSSCC summary which funds would be withheld and the impact this might have on the Air Force's ability to purchase the consulting services it needs. If funds already appropriated were to be withheld, legislation would be required to implement this recommendation as current statutory provisions authorize the withholding of appropriated funds only under

limited conditions. GAO was unable to determine whether actions have been taken to implement the recommendations.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC premise that savings would result from maximizing competition in the award of consultant contracts and improving management controls over these services is valid. However, the PPSSCC does not provide any support for its estimated 20 percent savings from maximizing competition. Actual savings from implementing the proposed recommendations may be more or less than 20 percent. GAO's 1981 report on Department of Defense management services did not estimate the savings that could result from improvements in this area.

V. RELEVANT GAO REPORTS

GAO/MASAD-81-19	Controls Over DOD's Management Support Service Contracts Need Strengthening (Mar. 31, 1981)
GAO/PSAD-80-35	Controls Over Consulting Service Contracts At Federal Agencies Need Tightening (Mar. 20, 1980)

VI. GAO CONTACT

Rosslyn Kleeman 275-6204

PER 17: DUPLICATION OF PERSONNEL SERVICES

I. PPSSCC ISSUE AND SAVINGS

Can federal agencies consolidate certain personnel offices and services?

The PPSSCC estimated that potential savings of over $18 million per year would result if the number of personnel specialists could be reduced in 700 small field offices. According to the PPSSCC, over 3 years, a savings of $61.2 million would be achieved, and the resulting management improvements from consolidation would be substantial.

II. GAO ANALYSIS OF ISSUE AND RECOMMENDATIONS

The PPSSCC recommends, in general, that agencies take action to consolidate field office personnel functions and share personnel administrative services. GAO agrees that consolidations offer opportunities for cutting costs and increasing government efficiency. GAO has supported such measures in past reports and believes that the federal field structure is a prime area for exploring cost-cutting opportunities. However, in making consolidation decisions, more reliable and valid evaluation methods are needed than those suggested by the PPSSCC.

Specifically, GAO disagrees with the PPSSCC's recommendation on using employee ratios as the basis for making staffing decisions. The usefulness of aggregate data such as employee-to-personnel specialist ratios is very limited. There are often many other legitimate factors which determine what an appropriate staffing level should be for an organization or function. The use of ratios may, however, serve as an indicator of what needs to be examined in more detail.

GAO believes it is important that each agency develop and apply sound organization and staffing criteria (work force planning) to assure that its functional services are appropriate for the work to be performed. Once this is done, agencies can identify staffing imbalances and evaluate the need for organizational changes such as consolidations.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO believes implementation of the PPSSCC recommendations is feasible and can be accomplished through executive branch action. No legislative action is

required. The Office of Personnel Management (OPM) informed GAO that all department and agency heads have reported to OPM and the Office of Management and Budget on potential consolidation of field office personnel functions.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC's savings estimate is based on an unsupported assumption that 700 personnel specialists positions, one in each personnel office, can be eliminated through consolidation. GAO has found that consolidations, if properly planned and implemented, offer opportunities for significant savings throughout the federal government. However, because the actual number of personnel specialist positions eliminated could be greater or less than 700, GAO cannot agree with the projected savings.

V. RELEVANT GAO REPORTS

GAO/FPCD-80-65 Supervisor to Non-supervisor Ratios in the Federal Government and the Private Sector (Sept. 30, 1980)

GAO/FPCD-80-4 Streamlining the Federal Field Structure: Potential Opportunities, Barriers, and Actions That Can Be Taken Aug. 5, 1980)

GAO/FPCD-77-39 Standardized Federal Regions--Little Effect on Agency Management of Personnel (Aug. 17, 1977)

VI. GAO CONTACT

Rosslyn Kleeman 275-6204

STATE 1: FOREIGN SERVICE PERSONNEL MANAGEMENT SYSTEM

I. PPSSCC ISSUE AND SAVINGS

Are there opportunities within the State Department's Foreign Service Personnel Management System, which administers payroll costs of $291 million (FY 1983), to improve the system's effectiveness and reduce operating expenses?

The PPSSCC estimated that the State Department could reduce its Foreign Service personnel expenses by $86.3 million over three years if it (1) decreased the number of higher grade personnel, (2) reduced the number of officers assigned to positions above or below their personnel rank, and (3) eliminated the surplus of senior officers.

The PPSSCC did not quantify the potential savings which might accrue from implementing three additional recommendations in this issue area.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

Although GAO has not undertaken a comprehensive review of the Foreign Service personnel management system, in two past reports GAO has dealt with several of the issues identified in the PPSSCC report and believes five of the six PPSSCC recommendations have merit. In particular, the PPSSCC report calls for the State Department to (1) review the ranking of positions and realign personnel to better match position and rank, (2) eliminate staffing practices which result in surplus personnel, (3) redesign the performance evaluation system, (4) eliminate the conflict of interest situations in labor-management practices, and (5) initiate new recruiting procedures to attract officers with management and supervisory skills, and encourage development of supervisory skills in current personnel. With respect to the remaining recommendation--that the Department of State use a more pyramid-shaped personnel model--GAO has no basis to agree or disagree with the PPSSCC position.

In a 1984 report on the status of the State Department's implementation of the Foreign Service Act of 1980 (GAO/NSIAD-84-65), GAO looked briefly at three areas of concern to the PPSSCC. Specifically, GAO identified (1) an "overcomplement" or surplus of senior officers for whom no appropriate permanent positions were available, (2) evidence of assignment mismatch, whereby officers were assigned to positions above or below their personnel rank, and (3) the potential conflict of interest problem implicit in the inclusion of senior officers in the labor-management bargaining unit.

Another issue identified in the PPSSCC report is the need to place greater emphasis on recruiting Foreign Service officers with management skills and developing supervisory capabilities in current middle level and senior

officers. Prior to the PPSSCC study, GAO pointed out in a 1981 report, dealing with the State Department's real estate management system (GAO/ID-81-15), that the Foreign Service officers responsible for real property management lacked the experience and technical know-how to effectively fulfill their managerial responsibilities. GAO recommended that the Secretary of State support more formalized training to enhance managerial skills.

III. GAO ASSESSMENT OF IMPLEMENTATION, AUTHORITY, FEASIBILITY, AND STATUS

The Secretary of State has the authority to implement all PPSSCC recommendations except for the one dealing with conflict of interest situations in labor-management practices (this would require change in the Foreign Service Act of 1980). GAO's assessment of information provided by the Department of State indicates that the agency generally agrees with the ideas or concepts raised by the PPSSCC; however, the Department has stopped short of agreeing with specific recommendations. Nevertheless, the State Department has taken some steps which address problems identified in the PPSSCC report. The State Department, for instance, has agreed with the Office of Management and Budget (OMB) to (1) reduce the number of overcomplement employees from 154 to 100 during FY 1985 and (2) reduce the number of employees in higher grades (GS/11-15 and equivalent) over the next five years. In addition, while the State Department defends its current recruiting and training procedures, it is now developing a number of new programs for in-service training of all officers to improve their supervisory skills.

Despite these personnel actions by the Department of State, the agency's position is that some of the PPSSCC findings and recommendations are invalid or inappropriate. It is unlikely that State will initiate voluntary action in those areas where it disagrees with the PPSSCC's findings and recommendations. For example, the State Department does not believe its distribution of personnel is necessarily inappropriate to the Foreign Service system, and therefore, State does not support the PPSSCC's position to employ personnel models used in the military or in the private sector.

In terms of the administrative issues concerning the personnel evaluation system and labor-management practices, the State Department disagrees with the PPSSCC findings. For instance, State contends its current personnel evaluation system is more effective than the PPSSCC recognized; therefore, State does not agree the system should be redesigned. Finally, as the GAO report on the Foreign Service Act pointed out, the State Department does not agree with the conflict-of-interest argument for removing senior officers from the bargaining unit and has no plans to implement the PPSSCC's recommendation to expand the definition of management to include senior Foreign Service officers.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

Although the PPSSCC's methodology for arriving at its savings appears reasonable, there are indications that such savings may be overstated. For instance, the PPSSCC incorporated a 10 percent annual inflation rate in its computation of Foreign Service salary savings over a 3-year period. Given that the rate of inflation for 1983 was 3.8 percent and for 1984 is projected to be about 4.4 percent, the PPSSCC may have overestimated the savings potential. In addition, the PPSSCC states in its report that implementation of all the recommendations could result in double counting of certain savings, but that the extent of this cannot be measured without more precise information.

V. RELEVANT GAO REPORTS

GAO/NSIAD-84-65	Foreign Service Act of 1980: Implementation Status, Progress and Problems (May 1, 1984)
GAO/ID-81-15	Much More Can Be Done By The State Department To Improve Overseas Real Estate Management (February 9, 1981)

VI. GAO CONTACT

Joan McCabe 275-4128

PER 15: EXECUTIVE SEMINAR CENTER OPERATIONS

I. PPSSCC ISSUE AND SAVINGS

Can current operating costs of the Office of Personnel Management's (OPM) Executive Seminar Centers be reduced through improved productivity and more efficient utilization of facilities?

The PPSSCC estimated that a net savings of $2.25 million could be generated over 3 years through relocation and improved management of the centers.

II. GAO ANALYSIS OF ISSUE AND RECOMMENDATIONS

The PPSSCC recommends relocating the Western Executive Seminar Center (WESC) from Denver to California; relocating the Kings Point, New York Center to a larger facility on the East Coast; and reducing the space used by the Center in Oak Ridge, Tennessee. The Commission also recommends reducing the number of GS-14 instructor positions at the three centers from the present level of 14 positions to 9 positions.

GAO recently completed a review of costs of the WESC, in connection with an OPM proposal to relocate it from Denver to Grand Junction, Colorado. The WESC had moved from California to Denver in 1980. OPM investigated a move back to California in 1982, and rejected the idea because cost savings were uncertain.

GAO recommended that OPM, as an alternative, take advantage of the Denver contractor's offer to reduce food and lodging costs. GAO also maintained that no relocation from Denver should take place before March 1986, because the lease until then on the current facility will have to be paid and GSA sees no prospects of using the space for another purpose.

While GAO has not investigated use of the Kings Point Merchant Marine Academy facility, it was told that the academy is considering expanding its training facility and OPM plans to use some of its space to increase present capacity. Therefore the expense of locating and moving to a new East Coast facility may not be necessary.

GAO also has not looked specifically at Oak Ridge. GAO's review in Denver, however, showed that even in a Federal Regional Center city, no other Federal agency was likely to use released training center space there. The renovated basement used in Oak Ridge is not likely to be useful to another agency.

The PPSSCC provides insufficient data and analysis to justify its assertion that a reduced number of professional instructors can effectively handle an increased enrollment. Such a recommendation could be justified only by a workload analysis, which neither the PPSSCC nor GAO has performed.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY AND STATUS

GAO agrees with the PPSSCC that OPM has legal authority to implement these recommendations. OPM had announced plans to transfer the WESC from Denver to Grand Junction, Colorado by October 1, 1984. Opposition by segments of Congress, coupled with GAO's recommendation to defer the move on cost grounds, has deferred that plan. OPM has made no move to negotiate lower costs in Denver. While a transfer within Colorado may make economic sense upon expiration of the present lease in Denver, OPM shows no inclination to re-open the question of a transfer back to California.

OPM did not provide information sufficient for us to evaluate the feasibility of implementing or the status of the other recommendations.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO does not agree with the PPSSCC's estimate that $200,000 can be saved annually by transferring the WESC to California. OPM relocated the facility to Colorado from California in 1980, in part because of high costs in California, and deferred a possible move back to California in 1983 because savings could not be demonstrated.

The $50,000 saving attributed to releasing space in Oak Ridge is dependent on finding some other tenant for this specially configured space.

Savings of $310,000 annually are ascribed to increasing enrollments at all three Centers. Even if this amount of increased revenue to OPM could be achieved, it does not necessarily represent a savings to the government of $310,000 because these revenues come from the budgets of federal agencies and represent an intragovernmental transfer to OPM.

V. RELEVANT GAO REPORTS

GAO/GGD-84-80 Office of Personnel Management Should Defer Relocation of the Western Execu-

VI. GAO CONTACT

Rosslyn Kleeman 275-6204

BUS-TVA 3: PERSONNEL AND LABOR RELATIONS

I. PPSSCC ISSUE AND SAVINGS

"Can staff reduction and reassignments make the Tennessee Valley Authority's (TVA) personnel and labor relations organization and practices more effective and cost-efficient?"

The PPSSCC estimated cost savings from the implementation of these recommendations at $25.9 million for the next 3 years.

II. GAO ANALYSIS OF ISSUE AND RECOMMENDATIONS

The PPSSCC asserts that TVA can eliminate 340 personnel positions by reducing its personnel staff to a ratio of personnel staff to total employment comparable to that of large private sector companies. However, GAO questions the basis for the PPSSCC's recommendation. GAO's past work has indicated that the usefulness of data comparing federal sector and private sector functions is very limited primarily because of questionable comparability. Concerns with overstaffing should be addressed by examining (1) the soundness of agencies' workforce planning systems; (2) the constraints within the governmental system that inhibit effective workforce planning and contribute to unnecessary overhead; and (3) the manner in which agencies are organized to minimize duplication of effort, fragmentation of authority, and unnecessary levels of review and overhead.

GAO agrees that the recommendations to remove supervisors and other management officials and confidential employees (if they are employees privy to labor/management relations information) from the bargaining unit and to remove provisions giving preferential treatment to union employees have merit. Under the Civil Service Reform Act (CSRA) these current practices would not be allowed in the federal sector. (The CSRA does not apply to TVA). GAO has no basis for judging the other recommendations dealing with expanded supervisory and secretarial ratios.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees that the recommendation to reduce TVA total staff could be implemented through executive action. Since the time of the PPSSCC survey, TVA has taken several steps to reduce its personnel staff (15.5 percent decrease) and further reductions are to be made as appropriate.

GAO does not agree that recommendations to alter labor contract provisions can be implemented by executive action. Contract negotiations require the assent of the bargaining unit. A more effective approach would be through congressional action extending labor legislation coverage to TVA. TVA has removed some management positions from the bargaining units and has twice tried, unsuccessfully, to negotiate the removal of confidential employees from the bargaining unit. TVA also doubts that eliminating preferential treatment for union employees is attainable through negotiations.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

If 340 personnel positions could be eliminated, the PPSSCC's estimate that $25.9 million could be saved over 3 years appears to be reasonable. It assumes an average annual cost in salary and fringe benefits of $26,500 per employee.

V. RELEVANT GAO REPORTS

GAO/FPCD-80-65	Supervisor to Nonsupervisor Ratios in the Federal Government and the Private Sector (Sept. 30, 1980)
GAO/FPCD-78-12	Additional Safeguards Needed for Tennessee Valley Authority Trades and Labor Employees to Protect Their Interests in Collective Bargaining (Mar. 15, 1978).

VI. GAO CONTACT

Rosslyn Kleeman 275-6204

PER 11: REDUCTION IN FORCE

I. PPSSCC ISSUE AND SAVINGS

"Are there changes and/or modifications to the current reduction in force (RIF) procedures that will reduce the disruption, lower the cost, and preserve workforce quality without adversely affecting employee rights?"

The PPSSCC estimates that approximately $39.5 million, of a total cost of $105 million, could have been saved in fiscal year 1982 if the recommended RIF procedures had been used.

II. GAO ANALYSIS OF ISSUE AND RECOMMENDATIONS

The PPSSCC recommends a series of changes to RIF procedures that would

--provide for greater agency flexibility in determining which positions will be affected by a RIF,

--give greater weight to performance rather than seniority in deciding which employees will lose their jobs,

--limit employees' assignment rights to positions no more than one grade level lower than the position from which employees are separated, and

--assist displaced employees in finding other jobs by limiting agencies' flexibility to fill vacant positions through other means when qualified displaced employees are available.

The present RIF system for federal employees has been characterized by GAO and others as cumbersome, costly, and disruptive. However, any changes to the present system, which has been in effect for over 20 years, would have both advantages and disadvantages that would have to be considered. For example, giving greater weight to performance rather than seniority as recommended by the PPSSCC should have the advantage of retaining those employees who perform at the highest levels. However, this could be a disadvantage if agencies' performance appraisal systems are not reliable. Previous GAO work has shown that many agencies' performance appraisal systems need further refinements so they can be used to make objective and accurate assessments of employees' performance. Using the results of unreliable performance appraisal systems as a basis for deciding which employees lose their jobs could result in improper decisions. Therefore, it may be premature to give greater weight to performance in deciding which employees will lose their jobs.

The PPSSCC's proposal to restrict employees' assignment rights, to positions no more than one grade level lower than the position from which an employee is released, also has pros and cons. The advantage of this proposal is that it may lessen the disruption to agency operations that occurs when employees whose positions are abolished fall back to other jobs, thereby displacing employees in those jobs. A disadvantage is that more senior, higher salaried employees could be separated, thus causing increased separation costs for such things as severance and unemployment payments.

The PPSSCC proposal to assist displaced employees in finding other jobs, by limiting agencies' flexibility to fill vacant positions, also has advantages and disadvantages. While such a change may result in fewer separated employees, it would limit agency managers' prerogative to fill vacant positions. The adverse effect of such a restriction on an agency's operations and on employee morale should be considered in deciding whether to implement the PPSSCC recommendation.

GAO does not believe that the RIF system that has operated for over 20 years should be changed without further study of the impact of such changes.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees that in the absence of specific congressional action the recommended changes in RIF procedures can be made by revising OPM regulations. OPM has attempted to implement changes to the RIF procedures similar to those suggested by the PPSSCC. However, Congress was concerned about the adverse effects of these changes and it has twice enacted legislation prohibiting OPM from implementing them. OPM plans to implement its proposed RIF regulations on July 1, 1985, when the current legislative restriction expires unless Congress again takes action to block the changes.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC first year savings of $39.5 million assumes a RIF rate comparable to that which occurred in 1982. Since 1982, the number of Federal employees separated through RIF procedures has dropped dramatically. As a result, it is questionable whether the estimated savings would be realized in future years. In addition, as mentioned previously, the PPSSCC's proposal to restrict employees assignment rights could increase agencies' cost for severance and unemployment benefit payments.

Furthermore, the PPSSCC savings estimate is based on certain assumptions that may or may not be valid. For example, the PPSSCC estimates that $29.5 million in downgrading costs would be saved by limiting employees' assignment rights to positions no more than one grade level lower than the position from which an employee is released. This estimated savings assumes that the average demotion under current RIF procedures is two grade levels. The PPSSCC does not provide any governmentwide data to support this assumption. For these reasons, GAO cannot comment on whether the proposed changes to the RIF procedures would save $39.5 million. GAO cannot estimate what savings, if any, would result from implementing the PPSSCC proposals.

V. RELEVANT GAO REPORTS

Testimony	Placement Programs for Displaced Federal Employees, by Rosslyn Kleeman, General Government Division before the Subcommittee on Human Resources, House Committee on Post Office and Civil Service. Oct. 2, 1984.
GAO/GGD-83-72	New Performance Appraisals Beneficial But Refinements Needed (Sept. 15, 1983)
GAO/FPCD-82-23	Savings From 1981 and 1982 Personnel Ceiling Reductions (Jan. 15, 1982)

VI. GAO CONTACT

Rosslyn Kleeman 275-6204

CHAPTER 8

PROPERTY, PRINTING, TRAVEL AND TRANSPORTATION MANAGEMENT AND CIVILIAN PROCUREMENT

Federal civilian agencies spend an estimated $35 billion annually to procure property and support services, $2 billion annually for travel and transportation, and $1 billion for printing and reproduction. These agencies also occupy and manage almost 1 billion square feet of building space. The PPSSCC made many proposals for managment improvements in these areas.

GAO examined 37 PPSSCC issues involving a wide variety of procurement, property management, printing, records management and travel and transportation matters. GAO found overall merit in 35 issues based on their conceptual merits and took no position on two. Fourteen of the PPSSCC issues which GAO examined would require some legislative action, and the remaining 23 issues could be implemented by executive action alone.

GAO believes that most of the PPSSCC issues could yield some savings although, in several cases, it is doubtful that the full amount of savings the PPSSCC projected can be achieved. In general, the PPSSCC's savings analyses do not include enough information to allow us to express an opinion on their reasonableness.

PROC 1: PROCUREMENT REFORM

I. PPSSCC ISSUE AND SAVINGS

What should be the role of the Office of Federal Procurement Policy (OFPP)? What view does the Task Force have on the Uniform Federal Procurement System (UFPS) recommended by the OFPP?

No cost savings were estimated for the related recommendations.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The first PPSSCC recommendation was that the Administration should continue its active programs for substantial reforms through the Uniform Federal Procurement System. The basic thrust of these reforms, with which GAO agrees, is to (1) upgrade key features of agency procurement systems, and (2) modernize the Federal Procurement statutes.

The key agency system features to be upgraded are (1) an integrated management structure for procurement, which is built around a procurement executive who reports to a sufficiently high level in the agency, (2) clear lines of contracting authority and accountability extending from the procurement executive to the contracting officer, (3) a simplified procurement process that is responsive and provides timely results, (4) a professional workforce which is able to exercise sound business judgement, and (5) criteria for (a) determining an acceptable procurement system, and (b) enhancing competition. When these reforms are in place a substantially reduced and simplified regulation is supposed to replace the current Federal Acquisition Regulation.

GAO has reported on the progress of these reforms which were included in a March 1982 executive order (E.O. 12352). At the time of the GAO review, procurement executives had been appointed in each agency and considerable design work was underway on the remaining reforms. However, agencies had not given these executives the procurement system responsibilities or authority to carry out the reforms. Further, the top executives had not in turn delegated authority to operating levels where the reforms must be carried out. The OMB Deputy Director has asked agency heads to give this matter their attention. Also, in December 1983, the Congress made these reforms the specific responsibilities of agency heads. Since that time OFPP has released guidance to the agencies in four of the five remaining areas of procurement reform.

In 1984, the Congress enacted some of the key statutory reforms in the Uniform Federal Procurement System Proposal. These reforms are embodied in the Competition in Contracting Act. Such actions included updating the basic federal procurement statutes and appointing competition advocates in each agency.

The second PPSSCC recommendation was that the Administration should fully integrate procurement reform and the OFPP role into the existing budget/program review processes of OMB. This would mean an active OFPP role in the budget process and the use of that process to ensure responsive action on the part of the agencies. GAO believes this recommendation has merit and that it should speed up procurement reform.

The third recommendation was that the Administration retain the Federal Acquisition Institute in OFPP/OMB. This Institute is connected to the procurement reforms through its charter to strengthen the federal procurement workforce and procurement research. For its first few years, the Institute resided in DOD and then OMB. In 1983 legislation, the Congress accepted the Administration's proposal to transfer the Institute to GSA. Because this is a recent change it is too early to determine the effect on the Institute.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

PPSSCC believes some of these actions would require legislation and, as noted, the Congress has responded. The PPSSCC recommendations in other areas address fundamental management reforms both within the operating agencies and in OMB's internal relationship with OFPP. As indicated by PPSSCC, progress can be expected to be slow without the Administration's full support. The Senate Governmental Affairs Subcommittee on Oversight of Government Management plans to hold hearings in late January 1985 on selected PPSSCC procurement recommendations, including those affecting OFPP.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

PPSSCC did not estimate any savings for this issue.

V. RELEVANT GAO REPORTS

GAO/GGD-83-69	Selected Government-Wide Management Improvement Efforts--1970 to 1980. (August 8, 1983)

GAO/PLRD-83-88 Progress of Federal Procurement Reform Under Executive Order 12352. (June 17, 1983)

Testimony: Appearances by Milton J. Socolar, Special Assistant to the Comptroller General, in the House and Senate: for example, hearings of October 19, 1983, before Senate Committee on Armed Services on Impact of Proposed Regulatory Authority of the Office of Federal Procurement Policy On National Defense and Related Government Activities.

VI. GAO CONTACT

Paul Math 275-4587

PROC 15: FSS REVIEW

I. PPSSCC ISSUE AND SAVINGS

"Can the organization of the General Services Administration's (GSA) Federal Supply Service (FSS) be improved and streamlined to make it more efficient in its mission of supplying government agencies?"

The PPSSCC estimates 3-year savings of $74 million if its recommendations were implemented.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

FSS's mission is to provide an efficient and economical system to supply executive agencies with common-use items. FSS uses three major purchasing programs to accomplish this mission which involve three commodity centers (Tools, Furniture, and General Products) and its regional offices.

The PPSSCC found that opportunities exist to make changes that will improve FSS's mission performance and made the following recommendations:

--"Convert FSS to a full commodity center approach under which each commodity center has 'cradle to grave' management responsibility and is operated as a distinct cost center, as it significantly reduces the number of locations where procurement and inventory management activities are conducted."

--"Develop and monitor performance indicators that measure the effectiveness of the procurement function, taking into account the marketplace in addition to timeliness of delivery."

--"Develop a program with specific objectives and deadlines to re-evaluate the method of supply for major items," and

--"Develop a program to contract out the direct delivery retail facilities to the private sector."

GAO agrees that the FSS organization should be streamlined whenever sufficient evidence has been gathered to ensure that planned changes will improve GSA's mission performance.

GAO has not done sufficient work to take a position on the PPSSCC recommendation to convert FSS to a full commodity center approach.

While GAO believes it would be useful to measure the effectiveness of the procurement function as the PPSSCC recommended, GAO is uncertain that such a measurement can be done accurately. GAO has not done sufficient work to take a position on this recommendation.

GAO agrees with the PPSSCC recommendation to re-evaluate the method of supply for major items by establishing a program having specific objectives and deadlines. This program should reduce costs by assuring that GSA purchases items using the lowest cost method of supply.

GAO believes that GSA's experiment with two pilot customer supply centers should provide direct delivery to customer agencies. GAO also supports contracting out commercial type activities when it is cost effective. However, GAO has not done sufficient work to take a position on the PPSSCC recommendation to contract out the direct delivery retail facilities to the private sector.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC's position that GSA can implement these recommendations without obtaining additional legislative authority.

GSA, in turn, agrees with the issue and plans to make the changes needed to implement the recommendations.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO has not analyzed the savings that might be achieved by implementing these recommendations and therefore has no basis for assessing the accuracy of the PPSSCC estimate. However, some savings seem likely to accrue from more efficient operations.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

James Mitchell 275-8676

PROC 22: ENHANCING COMPETITION

I. PPSSCC ISSUE AND SAVINGS

"What actions can be taken to make procurement more efficient by enhancing competition and simplifying the process?"

The PPSSCC estimated that 3-year savings will total $131 million.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

Historically, GSA has used detailed specifications to purchase common-use items for federal agencies. The PPSSCC believes that using simplified purchase descriptions would result in lower prices.

GAO agrees with the PPSSCC that agencies should make greater use of commercial practices when purchasing commercial items, including use of simpler specifications when suitable. GAO also advocates competitive bidding when feasible. In addition, the "Competition in Contracting Act of 1984" (P.L. 98-369) is intended to increase competition and limit the use of inappropriate, noncompetitive procurements.

In GAO's view, the PPSSCC's recommendation to start a comprehensive program, with specific implementation plans and target dates for shifting to simpler specifications where warranted, is appropriate.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that the recommended changes can be implemented by agency actions. GSA has initiated a long-term project to develop commercial item descriptions to replace detailed specifications for purchasing common-use items.

GAO has also endorsed OFPP's plans for greater use of commercial practices when buying commercial products.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC's savings estimate is based on a range of estimates and reflects anticipated lower prices resulting from enhanced competition through use of simplified specifications. While our past work has shown that increased competition frequently results in better prices, GAO does not have sufficient information to comment on the accuracy of the savings estimate.

V. RELEVANT GAO REPORTS

GAO/PLRD-82-40	Less Sole-Source, More Competition Needed on Federal Civil Agencies' Contracting (Apr. 7, 1982)

VI. GAO CONTACT

James Mitchell 275-8676

EX 5: REDUCE AGENCY TELEPHONE EQUIPMENT EXPENDITURES

I. PPSSCC ISSUE AND SAVINGS

Can agency telecommunications costs be reduced by reducing the number of telephones and unnecessary accessory equipment/auxilliary services in comparison to the private sector?

The PPSSCC estimated that incremental governmentwide savings would be $842.8 million over 3 years.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

In EX-5, the PPSSCC suggested ways that agency telecommunications costs could be reduced by extending information gained in a Department of Labor (DOL) telephone survey (Labor-8) of civilian government agencies.

In Labor-8, the PPSSCC cited a General Services Administration (GSA) seminar entitled "Eight Step Program for Telecommunications Cost Reduction and Control." Step two called for the elimination of unnecessary equipment and for the reduction of multiline equipment through the use of single-line telephones. The PPSSCC stated that, for the most part, recommendations in the GSA cost-savings program have not been implemented because, in both the public and private sectors, telephone systems and their associated costs have not received high priority by management.

The PPSSCC DOL Task Force calculated potential telephone equipment savings after examining DOL's National and New York regional (Region II) offices. The primary assumption made by the PPSSCC regarding the findings was that the type of equipment in use, the amount of multiline equipment, and the ratio of telephones to employees at Region II Headquarters were indicative of the DOL regional offices in general.

According to the DOL Task Force analysis, although DOL has an advanced type of communications system that provides software features which minimize the use of multiline phones, approximately 90 percent of the telephone equipment in use at DOL is multiline. The PPSSCC stated that private industry standards indicate that 30 percent (or less) multiline equipment was enough to provide adequate call coverage when using telephone systems with enhanced software features.

In addition, the DOL Task Force noted that DOL now has more telephones than employees, i.e., there is an approximate ratio of 8:7 telephones to employees although,

in private industry, even a ratio of 1:1 telephones to employees is considered very high.

Finally, the DOL Task Force observed a considerable amount of adjunct equipment (such as intercoms) whose functions could be obtained through full use of the present software feature service.

In EX-5, the PPSSCC expanded the findings of the DOL task force governmentwide. It recommended that DOL (1) reduce multiline phones, (2) cut the overall ratio of telephones to employees to 4:5, and (3) reduce the use of most adjunct equipment. GAO believes the first recommendation has some merit. Charts in a GAO report (GAO/LCD-80-72) demonstrate that the more single-line phones an agency has, the more money it saves. However, the report stated that there was an "unknown degree of acceptance for the single-line concept." Therefore, cost savings are not the only consideration in a decision to use single-line phones. GAO has not conducted audit work to be able to take a position on the second and third recommendations.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC and GAO agree that the recommendations can be implemented by executive action. GSA has implementation authority to make changes in the federal telephone system. Or GSA can issue a delegation of procurement authority to agencies to procure their own systems. In fact, some government agencies are now procuring their own telecommunications systems, which include single-line telephones. For example, DOL is moving some of its operations into different premises and has been changing the telephone equipment to single-line phones.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The 3-year governmentwide savings estimate of $842.8 million is an extrapolation of the savings that the PPSSCC developed from its examination of the DOL's telecommunications system (see the PPSSCC's Labor-8 issue). Indeed, even in Labor-8, the DOL Task Force conducted on-site analysis only at Region II and then projected savings for all of DOL by assuming that the conditions at Region II Headquarters were indicative of the DOL regional offices in general.

The DOL Task Force calculated potential savings based on an examination of its National and New York regional offices. It then calculated conversion costs, which were minimal, and projected potential savings on a department-wide scale. Using similar methodology, DOL calculated cost

savings governmentwide. Thus, the original 3-year savings estimated for DOL ($4.9 million) were extended governmentwide to $847.7 million.

GAO is not in a position to comment on the accuracy of the governmentwide estimate of $842.8 million because it believes an analysis of each government agency's telecommunications systems and needs would be required. Further, GAO believes that the PPSSCC should have supported its recommendations to DOL with an analysis of DOL's telephone requirements rather than an unspecified industry standard. The same is also true for its governmentwide needs analysis.

V. RELEVANT GAO REPORTS

GAO/LCD-80-72 GSA's Planned Procurement of a Consolidated Telephone System for the Washington, D.C. Area (June 27, 1980)

VI. GAO CONTACT

Thomas Giammo 275-4659

PROC 21: MULTIPLE AWARDS vs. COMPETITIVE LIMITED AWARDS

I. PPSSCC ISSUE AND SAVINGS

"What savings can be gained by better controlling the award of multiple contracts for similar items in the Federal Supply Service (FSS) schedules program?"

The PPSSCC estimates that 3-year savings will total $85 million if the federal government implements its recommendations on this issue.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

Under the multiple award schedules program GSA awards indefinite quantity contracts to commercial firms that provide supplies and services at stated prices for a given period of time. Prices are negotiated using the vendors' commercial price lists and agencies order directly from vendors they select as having the products that best meet their needs.

The PPSSCC found that multiple awards are not competitive but they do provide good service to customer agencies. The PPSSCC made the following recommendations to minimize the number of multiple award contracts.

--"Develop a competitive limited award schedule with awards normally limited to two to four companies, as appropriate."

--"Minimize the multiple award program in its present form."

GAO's report to Congress on GSA's multiple award schedules program supports limiting such contracts and converting them to competitive contracts, where feasible, to save money. Consequently, GAO agrees with the PPSSCC recommendation to minimize the multiple award program in its present form. However, GAO has not done sufficient work on limiting awards to two to four companies under a multiple award schedule to express an opinion on this PPSSCC recommendation.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that GSA can initiate the actions it recommends. GSA has taken action to convert some multiple awards to competitive purchases, but much remains to be done. Industry and trade associations and user

agencies often oppose conversions. GSA has also established controls over some schedule items in an attempt to restrict the purchase of high-cost items. Higher-level officials in user agencies are required to approve purchases of the more expensive items.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

Several examples demonstrate that substantial savings are obtained when multiple award schedules are converted to single awards. However, GAO has not done sufficient recent work to comment on the accuracy of the PPSSCC's estimated savings figure.

V. RELEVANT GAO REPORTS

GAO/PSAD-80-53	Effectiveness of GSA's Actions to Improve the Multiple Award Schedule Program (Aug. 22, 1980)
GAO/PSAD-79-71	Ineffective Management of GSA's Multiple Award Schedule Program--A Costly, Serious, and Longstanding Problem (May 2, 1979)

VI. GAO CONTACT

James Mitchell 275-8676

PROC 19: CONSIDERATION OF CONTRACT PERFORMANCE IN MAKING PROCUREMENT AWARDS

I. PPSSCC ISSUE AND SAVINGS

"What improvements can be made in bid award and contract management processes so that vendor performance is emphasized and enforced, and repeat business with substandard contractors is minimized?"

The PPSSCC estimates that 3-year savings will total $97 million.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC found that procurement and management personnel believe that repeat business with unsatisfactory vendors is a significant problem. This problem is compounded by the lack of government-wide or agency-wide performance data on vendors.

While GAO has not issued a report that specifically addresses repeat awards to substandard contractors, our procurement work has disclosed indications that such awards do occur.

The PPSSCC believes that procurement officials are often unwilling to take action against poor contractors because the officials believe (1) they will be overruled, and (2) the procurement delays associated with efforts to suspend or debar substandard contractors are not worth the effort required. The PPSSCC recommended that agencies take action to develop accountability among procurement personnel who make awards to known poor performers and fail to take appropriate corrective action.

GAO agrees with this recommendation. However, GAO is not aware of any system to pinpoint accountability when repeat awards to substandard contractors are occurring.

GAO also agrees with the recommendation to establish information systems on vendor performance. Vendor performance data should help contracting officers and other procurement officials award contracts to the most qualified vendors.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that agencies can implement these recommendations. The problem of repeat business with substandard contractors will be difficult to overcome

because (1) the incentives for contracting officers to take corrective actions are absent, and (2) large numbers of procurement personnel are employed by various agencies. GAO is not aware of any action on the PPSSCC recommendations.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO agrees that savings can be achieved if awards to substandard contractors can be restricted. However, GAO believes that it is not possible to develop a precise savings estimate for these recommendations.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

James Mitchell 275-8676

PROC 20: CENTRALIZATION VS. DECENTRALIZATION

I. PPSSCC ISSUE AND SAVINGS

"What are the cost savings to be realized through increased centralization of the procurement of goods and services?"

The PPSSCC estimates that 3-year savings will total $312 million after allowing for implementation costs of $80 million.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GSA's Federal Supply Service (FSS) has the mission of providing an efficient and economical system to supply common-use items for the executive agencies. The PPSSCC found that in most cases civilian agency procurement activity is decentralized and purchases are made by program units. The PPSSCC concluded that there is opportunity for GSA to increase its central purchasing of common-use items.

GAO agrees with the PPSSCC recommendation for GSA to increase the central procurement of common-use items for federal agencies. GAO has reported that legislation clearly expresses the intent that GSA provide central procurement of common-use items for the executive agencies. GAO has also reported that there can be substantial savings when common-use items are centrally purchased.

The National Academy of Public Administration also concluded that a central supply system should have federal agencies pool their requirements, under FSS leadership, and utilize the government's buying power for common-use items to obtain the most advantageous deal for the agencies.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that GSA can implement this recommendation. GSA has recently initiated an effort to expand its customer base and increase sales to federal agencies. This effort is ongoing and is targeted for completion by October 1986.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO's 1974 report estimated that the civil agencies could save about $300 million if GSA handled an additional $1.4 billion in agency purchases. While GAO believes there is potential for savings from centralized purchase of common-use items, it is uncertain how much savings potential

exists today because the purchasing practices of agencies may have changed since 1974.

V. RELEVANT GAO REPORTS

GAO/PSAD-79-71	Ineffective Management of GSA's Multiple Award Schedule Program--A Costly, Serious, and Longstanding Problem (May 2, 1979)
GAO/PSAD-75-32	Management of Federal Supply Service Procurement Programs Can Be Improved (Dec. 31, 1974)

VI. GAO CONTACT

James Mitchell 275-8676

PROC 14: GENERAL SERVICES ADMINISTRATION

I. PPSSCC ISSUE AND SAVINGS

Are there opportunities to improve government procurement, contracting and inventory management for the civilian agencies?

While the PPSSCC believes that certain management improvements and changes affecting GSA would result in substantial dollar savings, it did not provide an estimate of 3-year savings.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC recommended transferring the responsibility for government-wide procurement policy from GSA to the Office of Federal Procurement Policy (OFPP) and directing federal agencies to make greater use of GSA to procure common-use items.

GAO supported legislation, enacted as Public Law 98-191, dated December 1, 1983, which assigned responsibility for overall procurement policy to OFPP. GAO has for many years also supported greater use of GSA for centralized procurement of common-use items.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC stated that action by both Congress and the executive branch was needed to assign responsibility for government-wide procurement policy to OFPP. As noted above, Congress passed legislation in December 1983, that accomplished this goal. The PPSSCC stated that executive branch action alone could direct agencies to use GSA more to procure common-use items and GAO agrees.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC did not estimate savings for this issue.

V. RELEVANT GAO REPORTS

GAO/PSAD-79-71	Ineffective Management of GSA's Multiple Award Schedules Program--A Costly, Serious and Longstanding Problem (May 2, 1979)

GAO/PSAD-75-35	Management of Federal Supply Service Procurement Programs Can Be Improved (Dec. 31, 1974)

VI. GAO CONTACT

James Mitchell	275-8676

PROC 2: SOCIO-ECONOMIC PROGRAMS

I. PPSSCC ISSUE AND SAVINGS

Opportunities exist to reduce the burdens that various socio-economic programs place on the procurement process without impeding the objectives of such programs. (See note 1.) The civilian agency $10,000 limit for using simplified contracting procedures for small purchases is too low. (See note 2.)

PPSSCC estimates that "savings in excess of $847 million per year may be achieved by initiating a comprehensive reform of socio-economic programs implemented through the procurement process, tying the thresholds for socio-economic programs to the ceiling for simplified small purchase procedures, and raising the civilian agency ceiling for simplified small purchase procedures to $25,000."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO agrees with the basic thrust of the recommendations on socio-economic programs, even though GAO's specific proposals differ somewhat.

PPSSCC recommends that GAO and the Office of Management and Budget (OMB) conduct a joint project to determine the costs of major socio-economic programs (PROC-2-1). GAO has encouraged OMB's Office of Federal Procurement Policy (OFPP) to undertake a government-wide study. In fact, the Congress charged OFPP with responsibility for implementing the Commission on Government Procurement's recommendations, which included the need for a reevaluation of socio-economic

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[1] The Congress and the executive branch have often used federal contracts to help achieve social and economic goals. In contract provisions, for example, the government can require suppliers to maintain fair employment practices and to provide safe and healthful working conditions, require industry to refrain from polluting the environment, help handicapped persons attain a productive status in society, and encourage small and minority-owned business.

[2] Two issues are raised concerning "dollar thresholds": (1) Should the Congress enact into law a PPSSCC recommendation enabling the use of simplified small purchase procedures for procurements up to $25,000? (2) Should the threshold for invoking social and economic requirements be consistent with the small purchase procedure threshold?

costs and benefits. (See note 3.) In its report, "Proposals for Minimizing the Impact of the 8(a) Program on Defense Procurement" (GAO/PLRD-83-4, Oct. 12, 1982), GAO had hoped to renew interest within OFPP for just such an effort. GAO would be available to review OFPP's plans and resulting study and offer advice as needed.

PPSSCC's recommendation (PROC-2-2), calling for an executive order requiring cost-benefit analyses of future socio-economic programs implemented via the procurement process, also appears to be in keeping with the Commission on Government Procurement's views. E.O. 12291, issued February 17, 1981, imposes a similar requirement on major regulatory proposals. The order requires agencies to perform cost-benefit analyses and submit them to OMB for review. (Agency procurement regulations and OFPP policy directives are exempt from this requirement.)

GAO also agrees with PPSSCC's (PROC-2-3) recommendation (which reiterates a prior GAO recommendation) that the small purchase threshold be established as the minimum threshold for all social and economic programs applied to the procurement process. (See GAO/PSAD-80-77, Sept. 26, 1980). GAO is also in basic agreement with the intent of PPSSCC recommendation (PROC-2-4) that "the President should pursue legislation, either separately or as part of the proposed Uniform Federal Procurement System, to increase the ceiling for simplified small purchase procedures to $25,000 Government-wide." GAO recommended that the small purchase threshold be raised, government-wide, to a level consistent with the inflationary trend that has occurred since it was established at $10,000 in 1974. GAO also recommended the use of an escalator clause which could be administratively adjusted. GAO did not specify a $25,000 threshold, as did PPSSCC.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

PROC-2-1 and PROC-2-2 require administrative action. For example, OFPP could carry out the project referred to in PROC-2-1 by convening an interagency task force to look into the issue. PROC-2-2 requires the issuance of an executive order by the President.

Both PROC-2-3 and PROC-2-4 require congressional approval. The new "Competition in Contracting Act of 1984" establishes the $25,000 threshold for simplified small purchase procedures recommended in PROC-2-4.

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[3]Contained in the Office of Federal Procurement Policy Act Amendments of 1979 (Public Law 96-83, Oct. 10, 1979).

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

According to PPSSCC, estimated savings in excess of \$847 million per year may be achieved by adopting this series of recommendations. GAO cannot verify these savings since no information was provided on how they were derived. However, past GAO reports, such as GAO/HRD-79-18 (Apr. 27, 1979) and GAO/HRD-83-4 (Jan. 31, 1983), illustrate the potential for reducing government expenditures by hundreds of millions of dollars through elimination of the Service Contract and Davis-Bacon Acts.

No estimate was given of the costs associated with conducting the studies recommended in PROC-2-1 and PROC-2-2 or the "social costs" of limiting implementation of some socio-economic programs. However, PPSSCC notes that some programs could be implemented more effectively at less cost to the taxpayer.

V. RELEVANT GAO REPORTS

GAO/HRD-83-4	The Congress Should Consider Repeal of the Service Contract Act (January 31, 1983)
GAO/PLRD-83-4	Proposals for Minimizing the Impact of the 8(a) Program on Defense Procurement (October 12, 1982)
GAO/PSAD-80-77	Should Small Purchases Be Exempt From Complying With Social and Economic Program Requirements? (September 26, 1980)
GAO/HRD-79-18	The Davis-Bacon Act Should be Repealed (April 27, 1979)
GAO/PSAD-78-100	Legislative Recommendations of the Commission on Government Procurement: 5 Years Later (July 31, 1978)

IV. GAO CONTACT

H. Connor 275-4141

ENERGY 5: PROCUREMENT AND CONTRACT ADMINISTRATION

I. PPSSCC ISSUE AND SAVINGS

Can procurement and contract administration (including contract closeout) procedures be streamlined and simplified to reduce costs and delays? The PPSSCC estimated that, by encouraging a more effective competitive-bid process and making reforms in contract and procurement practices, DOE could be expected to avoid costs of about $208 million over a 3-year period.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC made 9 recommendations to improve DOE's procurement and contract administration. Of these, over 92 percent of the PPSSCC's estimated savings were attributable to the recommendation for increasing competitive bidding. The remaining recommendations related to further actions DOE should take to improve its procurement and contract administration, including more timely closeout of contracts and grants.

With regard to the recommendation for increasing competitive bidding, GAO in a previous report, found that there was a need for less sole-source contracting and more competition at several agencies, including DOE. GAO also believes that opportunities exist to improve DOE's procurement and contract administration through more timely closeouts on contracts and grants. The PPSSCC's recommendation in this area is consistent with the position taken by GAO in prior reports.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO believes that DOE has the authority to implement the PPSSCC's recommendations. DOE has advised GAO that the recommendation pertaining to increasing competitive bidding has been implemented and that recommendations pertaining to contract closeouts have been partially implemented. Other recommendations, according to DOE, have been implemented or are currently under study.

In July 1984, the Congress passed The Competition in Contracting Act of 1984--Title VII of the Deficit Reduction Act of 1984 (Public Law 98-369)--which requires the use of competitive procedures by all federal executive agencies to obtain full and open competition and limits the use of noncompetitive contracts by specifying seven circumstances under which other than competitive procedures may be used. These procedures take effect on any solicitations issued after March 31, 1985.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

Of the $208 million estimated savings, $193 million, or over 92 percent, are attributable to the PPSSCC's recommendation for increasing competitive bidding. The remaining $15 million applies to eight other recommendations to which the PPSSCC did not attribute individual savings.

The PPSSCC estimated that 25 percent of DOE's sole source procurements could be converted to competitive bidding at a savings of 7 percent of the contract amount. GAO has not recently examined DOE's procurement practices and therefore cannot comment on the reasonableness of PPSSCC's estimate of the number of DOE's sole-source procurements that could be converted to competitive bidding and the resultant savings. In addition, since the PPSSCC did not individually attribute savings to the recommendations other than competitive procurement, including timely closeouts on contracts and grants, GAO cannot comment on the reasonableness of these savings.

V. RELEVANT GAO REPORTS

GAO/OGC-82-1	Major Financial Management Improvements Needed at Department of Energy (Sept. 15, 1982)
GAO/PLRD-82-40	Less Sole-Source, More Competition Needed on Federal Civil Agencies' Contracting (Apr. 7, 1982)
GAO/EMD-80-2	The Department of Energy's Practices for Awarding and Administering Contracts Need to be Improved (Nov. 2, 1979)

VI. GAO CONTACT

John Sprague 275-1441

PROP 6: MAKING IN-HOUSE MAINTENANCE MORE PRODUCTIVE

I. PPSSCC ISSUE AND SAVINGS

"Can significant savings be realized by improving the productivity of in-house craftsmen who perform maintenance on the federal government's real property?"

The PPSSCC estimates that $340 million can be saved in the first year by the federal government, starting within approximately 1 year after instituting a program designed to ensure that improvement. Three-year cost savings could amount to $1,125.4 million.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC's finding that there is significant room for improvement in the productivity of in-house maintenance for real property is in line with findings GAO has reported on in the past. The PPSSCC made several recommendations for a comprehensive effort to improve the productivity of federal maintenance personnel, including introducing a comprehensive maintenance productivity program; establishing central responsibility within each agency; establishing performance indices for property maintenance, both as a management tool and as performance incentives; using standards and variance analysis to improve planning and scheduling; and hiring outside consultants to help get the program started. Except for the last recommendation, similar but not identical recommendations have previously been made by GAO. GAO believes the need for bringing in outside consultants should be considered agency by agency provided the necessary expertise is lacking in-house.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that executive agencies have the authority to implement the recommendations. GAO believes implementation is feasible provided the recommendation has the support of management at all levels.

GAO is aware that GSA has developed implementation plans to address the PPSSCC recommendations. However, GAO is not aware of actions that may have been taken by other agencies.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO believes that major cost savings can be attained through increased productivity; however, it has questions about the validity of the PPSSCC estimate.

The PPSSCC used subjective judgment in estimating current productivity at 42 percent in the federal maintenance workforce and at 62 percent in the private sector. The judgments were based on observations and opinions of various knowledgeable in-house and private sector experts. The PPSSCC also made a basic assumption that productivity could increase from 42 percent to 62 percent, in approximately 1 year after implementation for a savings of approximately $340 million annually.

GAO has no basis for assessing either the PPSSCC's estimate of current productivity in the private sector or its assumption regarding the federal productivity increase within one year. In 1976, GAO reported on the experience of 11 companies and local governments which had used work measurement systems. These organizations had efficiency increases ranging from 10 percent to 45 percent, with those systems longest in operation having the highest increases. This suggests to GAO that the possibility exists that the assumed increase may not take place entirely in the first year, but may be spread over a number of years.

V. RELEVANT GAO REPORTS

GAO/AFMD-84-11	Increased Use of Productivity Management Can Help Control Government Costs (Nov. 10, 1983)
GAO/LCD-77-343	Improved Productivity in Real Property Management Would Save Money for Certain Agencies (May 2, 1978)
GAO/LCD-76-320	Major Cost Savings Can Be Achieved by Increasing Productivity in Real Property Management (Aug. 19, 1976)

VI. GAO CONTACT

James Mitchell 275-8676

CONST 18: INCREASE USE OF PERFORMANCE SPECIFICATIONS

I. PPSSCC ISSUE AND SAVINGS

"Can performance or end-result specifications on federal construction projects be used to lower project costs?

Although the precise amounts saved will vary with the type of construction project and its elements, it is estimated that $400 million can be saved annually and $1.324 billion saved over 3 years."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

Standard or prescriptive specifications define a contract quantitatively and qualitatively. Performance specifications, however, do not specify what materials need to be provided. Instead, they identify the terms and/or degree of performance required. The contractor must identify what particular building material or systems will do the job best and which materials are most economical, consistent with required quality. GAO agrees that savings can be realized through increased use of performance specifications in federal construction; however, GAO does not fully support the PPSSCC recommendation because it is based on the premise that the private sector has the needed expertise to comply with performance specifications. The PPSSCC recommends that the use of performance specifications be vigorously encouraged on federal construction contracts. GAO does not believe sufficient expertise is readily available in the private sector at this time nor that verification procedures have been perfected to effectively determine compliance.

It seems reasonable to expect that, given the opportunity to advance alternative methods to construct a given project, bidders would--at least in some instances--offer less expensive, yet equally effective, proposals. In general, one would anticipate increased competition and lower bids, on average, if performance specifications were utilized where applicable. However, performance specifications cannot be applied to all construction projects (or to all portions of construction projects), and it would be difficult to estimate the possible savings even if the base of projects to which they are applicable were defined.

Based on our knowledge of the significant procurement problems that the General Services Administration and the Department of Defense experienced when performance specifications were used for building systems and energy monitoring and control systems, respectively, we believe that extreme care must be exercised when using performance specifications. Further, many professional organizations agree that not enough is known about many building components'

performance characteristics to write good performance specifications. In our opinion, more research is needed before performance specifications can be used for all components.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that no statutory or administrative prohibition now prevents the use of performance specifications. In fact, the General Services Administration and the Department of Defense have used performance specifications for some projects, and the Federal Highway Administration is currently developing performance-related specifications for highway construction and rehabilitation. To encourage their use, the PPSSCC recommends that an executive order be issued to the agencies.

IV. GAO ANALYSIS OF SAVINGS POTENTIAL

GAO has some doubts about the reasonableness of the PPSSCC savings potential estimate but has not done any work to determine how much has actually been saved on federal projects where performance specifications have been used. Consequently, GAO does not know whether the PPSSCC estimate is on target, understated, or overstated. The PPSSCC estimates the 3-year savings from implementing this proposal at $1.3 billion. It based this estimate on the finding that, for a sample of government construction contract bids, the difference between the two lowest bids averaged between 4 and 5 percent. A base of eligible programs was defined assuming that performance specifications are applicable to different, specified portions of various types of projects. The PPSSCC multiplied by 4 percent the estimated 1983 obligations for the base of programs it deemed eligible and reduced this estimate by half to be conservative.

It is not clear that the PPSSCC's estimate of the applicable base of projects to which performance specifications can be applied is accurate. For many projects, it assumed that 100 percent of contracts would be eligible for performance specifications; this probably overstates the base of eligible projects. In addition, the assumption that the federal government would save 4 percent (or 2 percent) by switching from method specification to performance specification contracting is uncertain.

V. RELEVANT GAO REPORTS

GAO/PLRD-83-46	Improved Energy Management in the Facility Design Process Should Reduce Operating Costs for DOD (Apr. 8, 1983)

GAO/PLRD-82-90 GSA Could Do More to Improve Energy Conservation in New Federal Buildings (July 12, 1982)

VI. GAO CONTACT

James Mitchell 275-8676

CONST 19: VALUE ENGINEERING

I. PPSSCC ISSUE AND SAVINGS

"Can value engineering (VE) when properly applied contribute to construction cost and/or life-cycle cost savings on direct Federal construction projects or on Federally assisted projects?"

The PPSSCC estimates that the 3-year savings from value engineering will total $662 million.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

VE, as applied in the construction industry, is a combination of analytical techniques used to analyze either a building system, building material, or construction method. Using systematic investigative techniques, a project's proposed design and construction methods are evaluated to identify any features or methods that could possibly be eliminated or modified to achieve the lowest possible life cycle cost. GAO has supported its use in planning, designing, and constructing federal and federally funded facilities and continues to support its use as a proven cost-saving technique which can supplement other cost control measures. GAO has recommended greater use of incentive programs and incentive clauses in construction contracts. Consequently, GAO agrees with the PPSSCC on this issue. GAO does not, however, fully support all of the PPSSCC's recommendations under this issue.

To take advantage of the potential offered by VE, the PPSSCC makes 13 recommendations. The key recommendations are that the Office of Management and Budget (1) establish a VE coordinating group and require all major federal construction agencies to support and comply with its directives, (2) develop a consistent VE level of effort in all agencies, (3) require a uniform VE approach, and (4) develop a VE training program to provide agency staff capability to oversee VE programs.

GAO's longstanding position is that, while wider use of VE is favored, it should proceed rather carefully until personnel are adequately trained. Lessons learned in both active and effective programs and those which have failed need to be taken into account before requiring the use of VE by all agencies. If VE is not properly applied, there may not only be no savings, but increased costs.

Requiring the use of VE, in itself, will not necessarily generate savings. Savings will be realized only when VE is applied properly. This will require aggressive support from top level management extending down through the organization to the working level relationships with contractors.

The PPSSCC recommended creating a VE coordinating group. The tasks suggested for this group could be performed by existing groups, such as the Federal Construction Council, rather than setting up another new group.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

Increasing VE use is a feasible goal and agencies have implementing authority, as suggested by the PPSSCC. GSA agrees with the proposal, but the only action planned is to reemphasize its nationwide VE program. This was accomplished, according to GSA's status report, on September 29, 1983.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO cannot support the PPSSCC's estimate of $662 million savings. GAO's position is that savings potential cannot be realistically projected, although GAO agrees that savings can result from effective use of VE. Over and above the large number of variable factors which can affect potential savings, the ineffective administration of incentive clauses can significantly offset savings or even raise costs. Too often the focus of VE has been on reducing construction costs instead of on the life-cycle cost. Savings in construction costs which are offset by increases in life cycle costs are not truly savings.

V. RELEVANT GAO REPORTS

GAO/RCED-85-14	Greater Use of Value Engineering Has the Potential to Save the Department of Transportation Millions in Construction Costs (Nov. 2, 1984)
GAO/RCED-83-127	Water Resources Construction Costs Could Be Reduced if Value Engineering Were Applied to More Designs and Applied Earlier in the Design Process (May 11, 1983)
GAO/RCED-83-34	Value Engineering Has the Potential to Reduce Mass Transit Construction Costs (Dec. 29, 1982)

VI. GAO CONTACT

James Mitchell 275-8676

CONST 23: LIFE CYCLE COSTING

I. PPSSCC ISSUE AND SAVINGS

"Can savings be realized in fixed-asset acquisition decisionmaking through more effective use of life-cycle costing (LCC)?"

No specific cost savings are identified for this issue.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO agrees with the recommendations that LCC analyses should continue to be used and their use expanded where possible, and that GSA build a data base for use in LCC analyses and require the use of LCC on its projects.

GAO agrees that LCC is a valuable management decision tool and has advocated its use in many reports. In construction, LCC is useful in making buy-build-lease decisions, evaluating building design options, and ranking materials. It can also be useful in prioritizing competing projects when available funds are inadequate to finance all projects. Agencies are required by executive order to use LCC in evaluating the cost effectiveness of potential energy conservation and renewable energy investments.

As the PPSSCC points out, the key to effective use of LCC potential is the availability and accessibility of accurate data bases. Many of the needed data bases either do not exist or exist in a form not compatible with the needs of potential users. However, this situation is changing. Attention is being focused on the data base issue within the architect-engineer-construction industry. Further, the high costs of data gathering and maintenance, which have made many needed data bases uneconomical, are rapidly falling as new, more advanced data base management and telecommunications technology is introduced. As this occurs, needed data will become more accessible to designers, building managers, and others.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC assumed agencies have implementing authority. GAO agrees that agencies can begin developing the data bases which will be required to use LCC effectively. Because of the lack of readily available data bases in many areas, it may be too costly, at this time, to require designers to submit comparative LCC analysis for all design alternatives. However, if agencies do not start developing the necessary data bases, full use of LCC will not be possible within the foreseeable future.

GSA's approved plan for implementing the PPSSCC recommendations calls for revising, by March 15, 1986, the Quality Standards for Design and Construction Handbook requirements and methodology to enhance the effectiveness of LCC analyses. However, GSA's plan makes no mention of actions to "...begin to build a data base for use in future LCC analyses" as recommended by the PPSSCC.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

No estimate was made.

V. RELEVANT GAO REPORTS

GAO/PLRD-82-41 Evaluation of the General Services Administration's Use of Life Cycle Costing in the Procurement of Building Materials (Feb. 17, 1982).

GAO/EMD-81-93 Energy-Efficient and Cost-Effective Equipment Should be Installed in New Government Housing (Sept. 16, 1981).

VI. GAO CONTACT

James Mitchell 275-8676

I. PPSSCC ISSUE AND SAVINGS

"Can construction project and program management policies and procedures of those Federal agencies involved in direct or indirect (grant) construction be improved to achieve adequate quality projects at more reasonable costs and within shorter time frames?"

The PPSSCC estimates that $50 million can be saved in the first year and as much as $286.5 million over 3 years.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO agrees that improved project management will result in better quality and more reasonable cost projects completed within shorter time frames. GAO cannot support most of the PPSSCC recommendations under this issue, however, because they either do not adequately address the issue or have adverse consequences which apparently have not been taken into account.

The key recommendations made by the PPSSCC under this issue were (1) mandatory use of project management on all federal construction from planning through construction, (2) creation of a project manager career field, and (3) establishment of goals for reducing construction contract change orders.

Mandatory use of project management will not achieve the desired results. Effective management, not mandatory use of a management technique, produces results. The only agency cited by the PPSSCC as doing a good job, the Army Corps of Engineers, which coincidentally manages the largest construction program in terms of number of projects, does not use project management as defined by the PPSSCC.

Experience on several GSA managed projects for which project management was used shows that success is not guaranteed. Three Social Security Payment Center and Federal Home Loan Bank Board building projects experienced serious problems and extensive delays in spite of having a project manager assigned.

The PPSSCC did not discuss two critical issues associated with the use of program/project management by federal agencies: the size of federal construction programs in terms of numbers of projects to be managed and the number of qualified personnel available to manage construction projects in federal agencies, especially with cutbacks in federal personnel. Few, if any, private sector concerns operate construction programs of the magnitude of those within the public sector. Most build one project at a time,

a few may have several concurrent projects, but none have hundreds of projects underway at any one time. Also, the PPSSCC seems to have underestimated the personnel resources required to implement its recommendations in all 20-plus federal agencies which construct buildings, roads, dams, etc.

GAO agrees that the creation of a career field for project managers would help agencies retain their qualified project managers in this function. That in itself would probably improve the quality of project management in the federal construction agencies.

The PPSSCC recommendation that agencies set goals for change-order reduction is counterproductive. Arbitrarily reducing the number of change orders could result in poor quality construction and may increase claims and litigation against the government. While change order review procedures need to be strengthened and emphasized, quotas could lead to decisions based on individual goal achievement rather than an objective evaluation of the need for a change.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC recognized that this would be a complex issue to implement involving a variety of actions at different levels, and GAO agrees.

The PPSSCC seems to have underestimated the impact of legislative restrictions and outside influences on this issue. Many discussions have already taken place, even before the PPSSCC reported its findings, to eliminate legislative and budgetary bottlenecks--all without success. Legislation affecting GSA has been before Congress for several years but there has been disagreement between the two houses. Also, many of GSA's delays are caused by litigation relating to land acquisition and site selection. Project management will have only minimal effect on these delays.

Within the limits of its responsibility, GSA is attempting to implement the following actions to comply with the PPSSCC's recommendations: (1) collect data on change orders, (2) submit justifications to create a project manager career field, (3) improve inspection standards, (4) select project management pilot projects, and (5) set change order reduction goals. GSA's projected completion date is June 30, 1986. However, some of the pilot projects selected by GSA are in trouble. For example, it selected the Pension Building in Washington, D.C., as the pilot to reduce design/construction time by 25 percent. However, this

project is now experiencing funding problems which will undoubtedly delay its completion and invalidate the test.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC provides little to support its estimated savings of $50 million in the first year and $286.5 million over 3 years. One of the keystones in the estimate is the experience with the National Air and Space Museum. However, the PPSSCC assumes that all time savings for that project can be attributed to project management. Other methods were also employed to compress design and construction times, such as hiring a construction manager and using phased construction in lieu of traditional construction methods. Consequently, without knowing to what degree these other methods have contributed to the savings, it is difficult to say whether the magnitude of savings attributed to project management by itself in the PPSSCC report is reasonable.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

James Mitchell 275-8676

PROP 1: IMPROVED MANAGEMENT FOCUS AND TECHNIQUE

I. PPSSCC ISSUE AND SAVINGS

"Can the fundamental premises of real property management within the federal government be improved, and can management duplications be eliminated?"

The PPSSCC estimated cost savings of $61.9 million over the first 3-year period based on a comparison with private sector management.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO's prior work at the General Services Administration (GSA) identified numerous problems with the federal government's real property management, including an automated tracking system that cannot provide complete and meaningful data and does not provide reliable oversight reports because its data base contains inaccurate and outdated information. Consequently, GAO agrees with the PPSSCC that the federal government needs to reemphasize improving real property management by clarifying federal goals, improving data collection and information flow, making better use of automated data processing, implementing an effective management plan, and eliminating duplication between agencies. GAO believes the recommendations made by the PPSSCC to accomplish the above have merit even though in a few instances the data developed by the PPSSCC for support are not specific. In a few instances, GAO has made similar recommendations.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that the recommendations are feasible and can be implemented through executive branch action. GSA has developed implementation plans addressing the PPSSCC recommendations involving correcting and updating the real property data base, selecting and obtaining the most appropriate software and hardware computer system for handling such data, and developing a working management plan for real property. GAO is unaware of any executive branch implementation action taken on the three remaining recommendations.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC stated that an enormous number of data points would have to be collected and analyzed in order to document and quantify the dollar savings that would result from improving the basic federal management process for real property in the ways recommended. However, the PPSSCC made

a comparison between GSA's Public Buildings Service and a private sector company and concluded that substantial cost savings can be made in this area. The PPSSCC developed its own estimate of GSA's "total management costs"--$125 million--and estimated that a savings of 15 percent could be realized by better defining responsibilities and eliminating duplicative functions.

The PPSSCC estimate of $61.9 million savings over 3 years is associated with one recommendation--eliminating duplication of responsibilities and functions within GSA. The PPSSCC did not quantify other possible savings. GAO has no basis to assess the validity of the estimated savings because of the limited amount of information presented by the PPSSCC and GAO's limited knowledge as to the extent of "duplication within GSA."

V. RELEVANT GAO REPORTS

GAO/PLRD-82-87	Better Information Management Could Alleviate Oversight Problems with GSA's Construction Program (Jul. 9, 1982)
GAO/PLRD-82-18	GSA's Federal Buildings Fund Fails to Meet Primary Objectives (Dec. 11, 1981)
GAO/AFMD-81-9	Continued Use of Costly, Outmoded Computers in Federal Agencies Can Be Avoided (Dec. 15, 1980)

VI. GAO CONTACT

James Mitchell 275-8676

PROP 8: REVISION OF GSA'S POLICIES AND PROCEDURES REGARDING LEASING AND ACQUISITIONS

I. PPSSCC ISSUE AND SAVINGS

"Can cumbersome federal leasing requirements be revised to save time and money?"

The PPSSCC estimated cost savings resulting from proposed revisions of GSA's leasing policies and procedures at \$29.7 million in the first year and \$144.5 million over the first 3 years.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO agrees with the PPSSCC that GSA's policies and procedures for acquiring leased space should be streamlined and simplified whenever possible. The PPSSCC made 7 recommendations, several of which have multiple parts, regarding the revision of policies and procedures for leasing and acquisition of facilities. The PPSSCC recommended executive branch actions (primarily by GSA) to:

--speed up the leasing process by limiting the use of the formal solicitation for offers (SFO) procedures and revising certain other leasing procedures;

--introduce greater flexibility in negotiating leases, delegating leasing authority to other agencies, and lessening restrictions on space location;

--adopt private sector practices of paying rent in advance, measuring space requirements, and consolidating separate leases for space in the same building into one lease.

The PPSSCC also recommended that Congress repeal legislation which limits the amount of rent the government can pay and seek means to allow GSA to adopt local fire safety standards, if adequate.

GAO believes most of the PPSSCC recommendations have merit. GAO generally agrees with the PPSSCC's recommendations that GSA should speed up and be more flexible in its leasing process, although in some instances GSA's existing practices are already consistent with the recommendations. For example, GSA usually acquires space through competitive negotiations, as the PPSSCC recommended, and not by formal advertising, as the PPSSCC apparently believed. GAO also agrees with the PPSSCC recommendation that Congress repeal legislation restricting the amount of rent the government can pay. However, as discussed in Section III below, this recommendation has already been implemented. GAO takes no position on the PPSSCC's recommendation that Congress seek

means to allow GSA to adopt local fire safety standards. There are wide variances in local standards and the PPSSCC provides limited information in support of its recommendation.

GAO does not agree with all the PPSSCC recommendations for adopting private sector leasing practices. Existing law (31 U.S.C. 3324) restricts payment in advance for federal contracts and GSA's legal counsel has interpreted this statute as prohibiting advance rental payments. Furthermore, the opportunity cost of paying rent in advance may largely offset the potential cost-benefit of such a change. The PPSSCC's recommendation that GSA adopt private sector space measurement standards does not appear to GAO to be feasible because there is no nationwide commercial standard. However, GAO agrees that multiple leases for space in the same building should be consolidated into one lease if economically advantageous lease terms can be obtained.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

Under 40 U.S.C. 471, the GSA Administrator has broad authority over the management of space, including the authority to lease real property, prescribe uniform leasing regulations, and delegate leasing authority.

The PPSSCC stated that five of its seven recommendations could be implemented by executive branch action. GAO disagrees with the PPSSCC in one of the five cases. The PPSSCC's recommendation that GSA prepay rents would require a change in existing law (31 U.S.C. 3324) which prohibits advance payment for federal contracts. The PPSSCC stated that the two remaining recommendations required congressional action. GAO agrees in one case and, in fact, Congress has acted to exempt leases from a provision of the Economy Act of 1932 which limited the amount of lease payments. In the case where the PPSSCC called for congressional action to allow GSA to adopt local fire safety standards where possible, GAO believes the recommendation could be implemented by GSA executive branch action; however, as discussed in Section II, GAO takes no position on this recommendation.

GSA has taken or plans some action on five of the PPSSCC's recommendations and, as noted above, Congress acted on one recommendation. GSA plans to review the dollar thresholds for using formal SFO procedures which pose leasing constraints and will consider revising these thresholds. In addition, GSA has established interagency task forces to address space definition, measurement, and classification problems governmentwide. Finally, GSA plans to conduct a review of the entire leasing process to identify and evaluate steps in the process that might be eliminated or shortened.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC's estimated savings of $29.7 million for the first year and cumulative total savings of $144.5 million over a 3-year period are questionable. The PPSSCC report states that GSA leasing procedures and practices increase government costs 5 percent to 15 percent and the reported saving is calculated at the upper end of the range (15 percent). The percentages are based on interviews with realtors with no supporting computations as to building type, age, and efficiency.

V. RELEVANT GAO REPORTS

GAO/PLRD-82-46	More Effective Leasing Procedures and Practices Could Help GSA Reduce Delays in Meeting Federal Space Needs (May 10, 1982)
GAO/LCD-78-303	More Flexibility Needed by the General Services Administration for Delegating Leasing Authority to Federal Agencies (Jan. 9, 1978)
GAO/LCD-78-313	Leasing of Social Security Administration District and Branch Offices by the General Services Administration (Feb. 7, 1978)

VI. GAO CONTACT

James Mitchell 275-8676

PROP 9: REVISION OF PROSPECTUS REQUIREMENTS IN ADVANCE OF GSA PROPERTY ACTION

I. PPSSCC ISSUE AND SAVINGS

"Can revisions to the Congressional 'prospectus' procedure expedite certain actions that the General Services Administration (GSA) should take on real property without removing effective controls?"

The PPSSCC estimates cost savings resulting from proposed revisions to GSA's lease prospectus procedures at $20 million in the first year and $66.2 million over the first 3 years.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

Under 40 U.S.C. 606, GSA is required to obtain congressional approval of all leases having an average annual rental in excess of $500,000 and of alterations to a public building involving a total expenditure in excess of $500,000. To obtain approval, GSA submits a prospectus containing information about the proposed lease or alteration project to the House and Senate Public Works Committees. GAO agrees with the PPSSCC's recommendation to change the basis for congressional approval of a lease from the current threshold of $500,000 to a threshold based on square feet involved in the lease. However, we have no basis for an opinion on the PPSSCC's recommended threshold level of 125,000 square feet. GAO also agrees with the PPSSCC's recommendation to raise the threshold for an alteration prospectus from $500,000 to $1 million. GAO believes these revisions would enable GSA to acquire leased space and manage real property more efficiently without eliminating congressional prerogatives for overseeing GSA's major real property actions. GAO also favors application of the full funding concept to leasing as the PPSSCC recommends. This would provide disclosure of the total budgetary impact of both lease and construction projects and facilitate comparisons between the two. Currently, the full funding concept applies to construction projects, but not to leasing.

GAO does not agree with the PPSSCC's recommendation to eliminate the prospectus requirement for repairs. According to the law, "alter" includes "repairing." Therefore, the prospectus requirement applies to repairs as well as alterations. The PPSSCC believes that the definition of "alter" in the law should be changed to exclude "repairing" and thus eliminate the requirement for repair prospectuses. GAO does not agree. The distinction between alterations and repairs is not always clear-cut. Thus, GSA could circumvent the requirement for alteration prospectuses by classifying part or all of an alteration project as repairs.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that implementation of the PPSSCC recommendations would require legislation--either a new law or appropriate amendments to existing law.

GAO considers the recommendations feasible, but, in the case of the recommendation to change the law's definition of alterations to exclude repairs, not advisable.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC believes that with rising rental rates, GSA could lease space faster and save money by avoiding the delays experienced with the prospectus process. Although long lead times were required for some prospectuses, this is not the predominant reason for leasing delays. The liberalization of the approval process may expedite the award of some leases, but it is doubtful that it will result in savings of the magnitude cited in the PPSSCC report.

V. RELEVANT GAO REPORTS AND TESTIMONY

Testimony	H.R. 630, a Bill to Establish Public Buildings Policies for the Federal Government, etc., by James G. Mitchell, General Government Division, before the Subcommittee on Public Buildings and Grounds, House Committee on Public Works and Transportation. Oct. 27, 1984.
GAO/LCD-82-46	More Effective Leasing Procedures and Practices Could Help GSA Reduce Delays in Meeting Federal Space Needs (May 10, 1982)
Testimony	S. 2080 to Establish Public Buildings Policies for the Federal Government, etc., by James G. Mitchell, Logistics and Communications Division, before the Senate Committee on Environment and Public Works. Jan. 29, 1980.
GAO/LCD-80-7	Cost and Budgetary Impact of the General Services Administration's Purchase Contract Program (October 17, 1979)

VI. GAO CONTACT

James Mitchell 275-8676

PROP 2: MEETING OFFICE-SPACE UTILIZATION GOALS

I. PPSSCC ISSUE AND SAVINGS

"Could closer management of office space allocation speed up the attainment of space utilization goals sufficiently to produce significant savings for the federal government?"

The PPSSCC states that implementing its recommendations should appreciably advance the government's current target to reduce space allocation per employee by 20 percent. According to the PPSSCC, if this target were attained within 5 years rather than at the present pace, which the PPSSCC estimates will take 13 years, annual space charges would be reduced by $293.0 million over the first 3 years, less an estimated cost of implementation of about $58.6 million.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The federal government has initiated efforts to reduce the use of office space to achieve a goal of 135 square feet per employee. The PPSSCC concluded that certain actions could be taken to achieve this goal more quickly. The PPSSCC recommended that (1) the current ceiling (congressionally imposed) on rent that agencies pay to GSA be removed, (2) space utilization goals be set for each agency and executive department, (3) GSA prepare central and regional plans for space surveys, (4) GSA's authority in allocating space be reaffirmed, and (5) space utilization submissions and annual review of progress toward those goals be required as part of the budgeting process.

GAO believes that improving the utilization of office space by federal agencies could result in reduced space needs. In general, GAO agrees that the PPSSCC recommendations would assist in achieving that objective, although we have no basis to assess the implications of the 135 square feet per employee goal. GAO has recommended actions similar to some of the PPSSCC recommendations. For example, GAO recommended that the Appropriations Committees require agencies to disclose information on space usage and costs in their budget requests. GAO also agrees that the ceiling on rentals for GSA-managed buildings should be removed.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that implementing its recommendations would require action by both the executive and the legislative branches. As for the first recommendation, in GAO's view, Congress can eliminate problems caused by the rental ceiling on GSA-managed buildings by not limiting GSA's proposed rental charges. In recent years,

Congress has frozen or placed other limits on what GSA was proposing to charge agencies for rent, attempting to hold down significantly increasing costs.

Two recommendations require executive branch action (by the President and OMB)--reaffirming GSA's authority in space allocation and requiring space-utilization submissions and annual progress reviews as part of the budgeting process. GAO has no basis for saying that the President and OMB are not supporting GSA authority in space allocation, and that reaffirmation is necessary. GAO agrees with the PPSSCC that the OMB would have to reverse its position if it were to add requirements to the budgeting process, as recommended. As GAO has previously reported, agencies do not currently disclose information on space usage in the budget requests they send to Congress.

GAO agrees with the PPSSCC that GSA can and should prepare central and regional plans for space surveys. GAO has made a similar recommendation. Regarding the PPSSCC recommendation that space utilization goals be set for each agency and executive department, the administration is seeking, in the long run, a 20 percent reduction in space. Currently, however, it is aiming for a 10 percent reduction, which in effect establishes a goal for each agency.

Other than GSA's developing an implementation plan for space surveys, GAO is unaware of any other legislative branch or executive branch actions taken on the PPSSCC recommendations.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

According to the PPSSCC, at the current pace it will take about 13 years for GSA to meet its goal of 135 square feet per employee; the PPSSCC suggests that implementing its recommendations would make it reasonable to achieve this goal within 5 years. Instead of reducing the average space allotment by 2.5 square feet per year, the PPSSCC stated the reduction would be about 6.4 square feet per year per employee. The PPSSCC estimates that this speed-up would result in gross savings of $42.9 million, $94.4 million, and $155.7 million, in the first 3 years, respectively. These savings would be offset by implementation costs of $58.6 million, leaving a 3-year net savings of $234.4 million.

While GAO believes that there is a need to improve the utilization of office space in the federal government, GAO cannot determine whether the magnitude of savings the PPSSCC projects is reasonable or attainable within the time period it has established. There are too many variables--such as where the space is located, whether it is leased or owned,

what the tenants' requirements are, how reasonable is the 135 square foot standard--that have, and will continue to have, a significant impact on the speed and success of the space reduction program.

V. RELEVANT GAO REPORTS

GAO/PLRD-82-18 GSA's Federal Buildings Fund Fails to Meet Primary Objectives (Dec. 11, 1981)

VI. GAO CONTACT

James Mitchell 275-8676

TREAS 23: SPACE CONSOLIDATION

I. PPSSCC ISSUE AND SAVINGS

"Would consolidating the various Bureau of Government Financial Operations (BGFO) and Bureau of Public Debt (BPD) locations improve efficiency and reduce costs for the Government as a whole?"

The PPSSCC estimates annual administrative savings of $3.7 million, and improved BGFO and BPD effectiveness is likely. However, a consolidated facility for BGFO would need to be found, and thus cumulative net savings are negative in the first several years. If it were constructed, the PPSSCC stated the investment would pay for itself in 6 years.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC concluded that BGFO could operate more efficiently and effectively and at a reduced cost if its operations were to be consolidated in one building. They also concluded that BPD operations may benefit from consolidation into a single facility which could be located in either Washington, D.C., or West Virginia. In its recommendations, the PPSSCC suggested the BPD action be taken when practicable. Regarding its recommended BGFO consolidation, PPSSCC estimated that obtaining necessary approvals could take more than 7 years and suggested that the process be looked at with the goal of reducing the amount of time required.

As a general rule, GAO believes consolidation of dispersed offices could eventually result in some savings to the government. However, GAO is not in a position to state that either action should be taken at this time, based on the PPSSCC data. There are a number of agencies in the Washington, D.C., metropolitan area alone which are dispersed in various locations, and they may be potential candidates for consolidations that can possibly result in higher savings than those proposed. However, GAO has not developed data on how many agencies are considering or should consider consolidating their operations, or on whether the Office of Management and Budget and Congress would approve such consolidations. (The PPSSCC noted that GSA agreed to incorporate BGFO's request for consolidated space into its 5-year plan to be submitted to OMB and Congress.)

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

As noted by the PPSSCC, obtaining a suitable facility for the consolidation of BGFO requires action by both the

executive and legislative branches. Executive branch action is required to prepare and approve a prospectus to be submitted to Congress, and legislative branch action is required to both authorize and fund the project. Whether this proposed consolidation should take priority over other consolidations or projects is ultimately up to Congress to decide. GAO has no basis to state this proposed consolidation should be accomplished at this time.

GAO agrees with the PPSSCC that a reevaluation of BPD's space requirements could be implemented under the authority of the executive branch. However, very limited data was presented by the PPSSCC and GAO has no basis for saying it is feasible to accomplish this recommendation at this time.

The only action GAO is aware of is the one noted in the PPSSCC study in which GSA agreed to incorporate BGFO's request for consolidated space into its 5-year plan.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC did not estimate what savings would be attained by consolidating the BPD operations.

Regarding its recommended consolidation of BGFO operations, the PPSSCC estimated annual administrative and rental savings of $3.7 million the first year. Assuming a 10-percent inflation factor, the PPSSCC estimated savings of $12.2 million over a 3-year period. The estimated savings were offset, however, for a period of 5 to 6 years due to the need to acquire a suitable building for consolidation. The PPSSCC estimated a cost of $25.7 million to construct and occupy the building. The PPSSCC noted that the cost to the government would be less if a suitable building is leased or if government space is available. GAO has no position on the reasonableness of the estimated costs, as the PPSSCC used an "average cost of constructing a building to government standards " with little detail and did not include the cost of the land.

Although consolidation may result in some annual savings, GAO is not able to state its agreement on the validity of the PPSSCC savings estimate or on the time frame for such savings. Eighty-seven percent of the estimate is savings "accruing to other government agencies able to occupy BGFO's current locations." The PPSSCC assumed that (1) any government-owned space currently occupied by BGFO could be used to consolidate other agencies currently located in leased space and (2) GSA will find other occupants for leased space vacated or will sublet to the public. GAO believes that too many unknowns are built into the PPSSCC estimate to state when net savings would begin and what those savings may be.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

James Mitchell 275-8676

BUS-FTC 2: OFFICE CONSOLIDATION

I. PPSSCC ISSUE AND SAVINGS

"Should the Federal Trade Commission (FTC) consolidate its headquarters offices in Washington, D.C.?"

The PPSSCC estimates that consolidation will result in a net average savings over the first 10 years of $1.1 million per year. To attain these savings, net start-up costs of $1.3 million would be incurred during the first 3 years.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

As a general rule, GAO believes consolidation of dispersed offices could eventually result in some savings to the government. However, based on the PPSSCC facts, GAO is not in a position to state that the FTC consolidation should be made at this time. A number of agencies in the Washington, D.C., metropolitan area are dispersed, and they may be potential candidates for consolidations with possibly higher savings than the FTC proposed consolidation. However, GAO has not developed data on how many agencies are considering or should consider consolidating their operations or on whether the Office of Management and Budget (OMB) and Congress would approve such consolidations.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

As noted by the PPSSCC, implementation requires action by both the executive and legislative branches. Executive branch action is required to prepare and approve a prospectus that would be submitted to Congress, and legislative branch action is required to both authorize and fund the project. Whether this proposed consolidation should take priority over other consolidations or projects is ultimately up to Congress. GAO has no basis to state that the FTC consolidation should be accomplished at this time.

The only action GAO is aware of at this time is that, according to the PPSSCC, FTC and GSA were revising a prospectus for a similar proposal that OMB had turned down in 1981.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

In general, GAO agrees that consolidation of dispersed offices could eventually result in some savings to the government. However, GAO does not know if the direct savings

to be achieved will be in the neighborhood of the PPSSCC estimate of an average of $1.1 million a year over a 10-year period after costing $1.3 million for the first 3 years. The PPSSCC made a number of assumptions about future rental rates and actions that GSA must take for the savings to be achieved. Furthermore, some of the savings can be attributed to the fact that there would be a significant (about 30 percent) reduction in square footage. Such savings may be attainable whether or not consolidation takes place. As a result, GAO has no basis for assessing the PPSSCC estimate.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

James Mitchell 275-8676

BANK 8: REDUCTION IN SPACE USAGE

I. PPSSCC ISSUE AND SAVINGS

"Can Export-Import Bank (Eximbank) reduce its space usage by returning space to General Services Administration (GSA) commensurate with its reduction in personnel over the past 2 years, as well as, by more efficient use of remaining space?"

The PPSSCC estimates $0.5 million can be saved in the first year at indicated 1983 rental costs and could amount to about $1.6 million in cost savings in over 3 years.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO agrees with the PPSSCC that the space usage ratio at Eximbank can be improved by returning space to GSA. Efforts are being made within the federal government to reduce space usage. The amount of space per person at Eximbank appears excessive in relation to its prior experience. However, the PPSSCC had no data available that would allow GAO to take a position on the possibility of having building improvements made to further improve space usage.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that the implementation authority for reducing space usage at the Eximbank rests with the executive branch. However, if the recommendation on improvements is to be implemented, congressional action may be required depending upon the estimated cost of the improvements. GAO agrees that it is feasible to reduce current space usage. Whether or not it would be feasible to make building improvements would have to be based on a study by GSA. GAO is unaware of any executive branch implementation action.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO agrees that space reductions provide potential cost savings. The PPSSCC estimated savings based on a reduction in Eximbank's payments to GSA. This savings appears to be within reason if the Eximbank is able to reduce square footage usage and return excess space to GSA.

The PPSSCC did not estimate savings or costs related to possible building improvements.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

James Mitchell 275-8676

PROP 3: DISPOSITION OF SURPLUS REAL PROPERTY

I. PPSSCC ISSUE AND SAVINGS

"Can the present system of locating and disposing of surplus real property now owned by various Federal agencies be improved so as to produce a net financial benefit to the Government?"

The PPSSCC estimates that 3 years' savings will be about $295 million.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC claims that the system of locating and disposing of surplus real property can be improved, and savings will result, if three recommendations to increase property sales are adopted. GAO generally agrees with the need to improve the property disposal system and with the thrust of the PPSSCC's recommendations.

The first recommendation to establish lower sales goals is consistent with a previous GAO report that questioned the feasibility of achieving the goals in the time allowed. The second recommendation to provide agencies some of the sales proceeds as an incentive for declaring property excess would amount to providing agencies with increased funds for carrying out their normal responsibilities. The biggest drawback to this proposal is that it could bypass the congressional appropriation review and approval process. GAO has not analyzed, and hence has no position on, the third recommendation for GSA's use of credit sales or the need to provide financial assistance for credit sales for disposal of real property. GSA currently is authorized to use credit sales with repayment in 10 years.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC says its recommendation to revise sales goals would require White House approval and that its recommendations dealing with agency incentives and federal assistance to encourage more credit sales would require congressional action. GAO agrees. The sales goal for 1985 has been reduced from $2 billion to $300 million. The recommendations to provide (1) part of the sales proceeds to an agency as an incentive to declare property excess and (2) financial assistance for credit sales will require both executive and congressional action.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC's savings estimate is primarily based on the assumptions that property sales can be increased over GSA's current sales forecast by (1) returning part of the sales proceeds to the agency making property available to GSA and (2) facilitating credit sales. While these two steps might increase total sales, the PPSSCC's computation does not show any deduction for the share of proceeds that is proposed to go to the agency making the property available. Also, the computation does not recognize that with credit sales, there will be lower receipts in the 3-year savings projection because repayment will be over 7 years instead of 1 year for a cash sale. Also, the computation does not recognize that facilitating credit sales might result in some sales being credit sales that otherwise might be cash sales, further reducing receipts in the 3-year projection. Hence, the PPSSCC estimated savings are too high.

V. RELEVANT GAO REPORTS

GAO/PAD-83-43 Status Report on the Administration's Proposal for Budgetary Savings in Fiscal Year 1983 (June 14, 1983)

VI. GAO CONTACT

James Mitchell 275-8676

I. PPSSCC ISSUE AND SAVINGS

Can the acquisition, management and disposition of properties that are held or owned by the Department of Housing and Urban Development (HUD) be upgraded to realize significant improvements in staff productivity, reductions in expenses, and increases in sales proceeds?

The PPSSCC estimated three-year revenues and savings of approximately $242.9 million after adoption of upgraded procedures.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC made numerous recommendations for improving HUD's policies and procedures for acquiring, managing, and disposing of single-family and multifamily properties. One of the more significant issues addressed by the PPSSCC concerned the need for HUD to expedite the foreclosure of multifamily housing properties.

The PPSSCC recommended that the foreclosure process be expedited by (1) amending the Internal Revenue Code to allow for only cash-based accounting for HUD-financed and insured housing, eliminating depreciation deductions upon the initiation of foreclosure, and requiring that the recapture of tax shelter deductions be retroactive to the date of the filing of the foreclosure complaint; (2) amending the bankruptcy law to allow HUD adequate and timely recourse against owners using bankruptcy to delay foreclosure; (3) amending section 367(b) of the Multifamily Mortgage Foreclosure Act of 1981 which requires that HUD impose conditions of sale in foreclosing on projects serving low- and moderate-income persons; (4) publishing the final regulations for implementing the foreclosure act of 1981, (5) allowing HUD to forward foreclosure complaints directly to U.S. Attorneys and for HUD attorneys to assume more in-court responsibilities; (6) HUD continuing to advise the IRS of foreclosures to ensure owners are complying with the recapture provisions of the Internal Revenue Code and (7) designating specific staff to monitor and track the processing of foreclosure actions.

GAO agrees that improvements can be made in HUD's policies and procedures for acquiring, managing, and disposing of properties. Regarding the foreclosure issue, GAO, in a January 1980 report on multifamily assigned mortgages (GAO/CED-80-43), reported it was taking an average of over 2-1/2 years to foreclose on multifamily projects. GAO pointed out that project owners were motivated to delay foreclosure to extend the period of time by

which they could benefit from deductions on their federal income taxes.

GAO agrees, for the most part, with the PPSSCC recommendations for expediting the foreclosure of multi-family housing projects. GAO, however, does not agree with certain of the legislative recommendations for amending the foreclosure act and the Internal Revenue Code. The PPSSCC is concerned that section 367(b) of the foreclosure act may inhibit HUD from using the law in its entirety. This section requires that HUD impose conditions of sale in foreclosing on projects to ensure, as appropriate, the projects remain available to serve low- and moderate-income families.Because the foreclosure act has not been implemented, GAO believes it is too early to address the problems, if any, that this section might present. Regarding the proposed amendments to the Internal Revenue Code, the Department of Justice has advised GAO that the recapture provisions of the Internal Revenue Code are currently retroactive to the date of the filing of the complaint for foreclosure; therefore the amendment cited by the PPSSCC may not be needed. The PPSSCC's proposal to eliminate depreciation deductions upon the initiation of foreclosure, however, may have merit.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

Congressional action will be needed for legislation (1) amending the bankruptcy law to prevent owners of multifamily projects from using bankruptcy to delay foreclosure, (2) amending the provisions of 367(b) of the Multifamily Mortgage Foreclosure Act of 1981 and, (3) amending certain provisions of the tax code for multi-family properties. HUD has submitted legislation in past congressional sessions to amend the bankruptcy law and has indicated its intent to continue to pursue this matter.

The remaining PPSSCC recommendations can be implemented under existing agency authority. In fact, several of the PPSSCC recommendations have been implemented. For example, HUD published its final rules and regulations implementing the foreclosure act of 1981; and HUD and Justice agreed to a new procedure allowing HUD to forward foreclosure complaints directly to U.S Attorneys and for HUD attorneys to assume increased court responsibilities. GAO believes, however, HUD needs to continue work toward (1) improving the accuracy of the information provided to the IRS on HUD foreclosures, and (2) expediting the implementation of the Multifamily Mortgage Foreclosure Act of 1981. HUD's failure to implement the foreclosure act of 1981 was the subject of recent congressional hearings.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO believes the revenues and savings estimated by PPSSCC is, to a large extent, speculative. For example, PPSSCC estimates that about $115 million in additional revenues could be realized over a three year period by implementing a year-round sales program in lieu of the typical practice of rushing to sell properties in the last-half of the fiscal year to meet sales' goals. The additional revenues were based on the differences in the per-unit selling prices HUD received for properties sold in the first six months of fiscal year 1981 compared to those sold in the last six months of the year. This analysis does not recognize that other variables can affect the selling prices HUD receives for properties it sells, including the relative value of the properties being sold, general economic conditions, and the financing terms being offered in conjunction with the sale of the properties. Higher selling prices do not necessarily equate to a reduction in losses or savings. In fact, in fiscal year 1981 the losses resulting from the sale of properties were higher for the first half of the year compared to the second half.

V. RELEVANT GAO REPORTS

GAO/CED-80-43	Analysis Of Multifamily Assigned Mortgages (Jan. 16, 1980)
Testimony	HUD Policies Concerning Multifamily Property Management and Disposition by J. Dexter Peach before the Subcommittee on Manpower and Housing, House Committee On Government Operations (May 25, 1983)

VI. GAO CONTACT

John Luke 275-6111

CONG 3 - 7: FEDERAL BUILDING REPAIR

1. PPSSCC ISSUE AND SAVINGS

"Can delays in congressional approval for Federal building repairs be reduced?"

The PPSSCC estimated the potential 3-year savings from reduction in excessive delays in obtaining congressional approval for needed repairs on federal office buildings to be $36.4 million.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

In 1979 and 1981, GAO recognized and reported that problems in the congressional approval process for repair and alteration projects, as well as for new construction, needed a legislative remedy. In 1980, GAO supported Senate bill 2080 providing for an annual authorization bill to replace the current method of authorizing projects. However, because of differences between the House and the Senate, this legislation failed to become law. The House wants to retain the existing project-by-project approval process, while the Senate wants the total annual program to be approved as a package without approving each individual project in the program. GAO concurs with the PPSSCC recommendation that the General Services Administration (GSA) seek legislation that would eliminate excessive delays in obtaining project approvals.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

Legislation is needed to remedy the problem. GSA may be able to suggest a compromise which would be acceptable to both houses and still eliminate the excessive delays in the approval process. However, GSA is not planning any action on this issue at this time.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

While GAO agrees there would be savings from timely repair and maintenance, it has no position on the validity or reasonableness of the PPSSCC savings estimate.

V. RELEVANT GAO REPORTS

GAO/PLRD-81-7 What Has GSA Done to Resolve Previously Reported Problems in Its Construction Program? (March 27, 1981)

GAO/PAD-80-95	Foresighted Planning Budgeting Needed for Public Buildings Program (Sept. 9, 1980)
GAO/LCD-78-335	Repairs and Alterations of Public Buildings by General Services Administration--Better Congressional Oversight and Control Is Possible (March 21, 1979)

VI. GAO CONTACT

James Mitchell 275-8676

PROP 7: REDUCING ENERGY COSTS IN GOVERNMENT-CONTROLLED BUILDINGS

I. PPSSCC ISSUE AND SAVINGS

"Can GSA and DOD take specific steps to reduce the costs of energy use in the large number of buildings under their control while still providing reasonable service to the occupants?" The PPSSCC estimates that over 3 years, the net benefit of implementing the recommendations would be $385.1 million.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO agrees with the thrust of the PPSSCC recommendations, that the government can reduce its energy costs while still maintaining reasonable levels of service. The PPSSCC made eleven recommendations which in essence increase the government's accountability and control of energy use. Specifically, the PPSSCC recognizes the benefits of using energy management control systems to both monitor and manage energy use in its six recommendations to improve existing control systems at DOD and to expand their use at GSA. The PPSSCC also recognizes the benefits of making energy users fiscally responsible for their consumption. One PPSSCC recommendation, for example, pointed out that GSA should assess federal tenants for their actual energy use, while another stated that DOD should renew its investigation of metering military family housing so as to provide economic incentives for conserving energy. In two other recommendations, the PPSSCC suggests that GSA collect data on steam production in the National Capital Region to improve economic performance.

The last recommendation emphasizes the importance of energy conservation as a cost-control measure. GAO fully agrees. GAO has consistently reported on the need for better management of federal agency energy conservation programs.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

All of the PPSSCC's recommendations under this issue are feasible under existing agency authority. However, implementation could not occur without adequate funding.

According to a GSA status report, the agency agrees with all of the specific GSA directed recommendations listed under this issue. Projected completion dates range from October 1984 through September 1989. DOD has not provided information to GAO on the status of their actions on the recommendations.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO believes that there are opportunities to effect savings through improved management of federal agency energy use. However, GAO believes the PPSSCC savings figures may be overstated because cost estimates of implementing the recommendations appear understated. The PPSSCC estimated the costs associated with implementing recommendations in only two of the six instances where savings were estimated. The most significant of the four omissions is in the area of metering military housing. The PPSSCC assumed a 3-year savings of $264.8 million if military families paid for their own utilities, but did not account for the cost of installing meters, and of developing a meter reading system. A 1980 military study[1] estimated these initial start-up costs at $465 million. The PPSSCC's savings estimates also excluded the continuing billing costs and the potential increase in military allowances to offset the increase in household expenses.

The savings estimates may also be overstated because of certain assumptions made by the PPSSCC. The PPSSCC calculated that the savings from installing energy management control systems would apply to all of an agency's buildings without recognition that it may not be technically feasible or economically practicable in all cases. For example, some GSA buildings may not be large enough to economically justify the use of an energy management control system. The savings estimate also did not account for those buildings that may already be using an energy management control system.

V. RELEVANT GAO REPORTS

Testimony	Energy Conservation in the Federal Government by J. Dexter Peach, Energy and Minerals Division, before the Subcommittee on Oversight and Investigations, House Committee on Energy and Commerce (Oct. 23, 1981)
GAO/EMD-80-11	The Federal Government Needs A Comprehensive Program to Curb Its Energy Use (Dec. 12, 1979)

[1]Report to the Congress entitled "Family Housing Metering Test," prepared by the Office of the Deputy Assistant Secretary of Defense (Installations and Housing), March 1, 1980.

VI. GAO CONTACT

John Sprague 275-1441

PRIV 7: FEDERAL VEHICLE FLEET MANAGEMENT

I. PPSSCC ISSUE AND SAVINGS

"Can the management, utilization and cost-effectiveness of the Federal vehicle fleet be improved with the introduction of a system-wide management information system and more private sector involvement?"

The PPSSCC estimates savings of $1.26 billion over 3 years: $310 million in the first year, $418 million in the second year, and $532 million in the third year. In addition, the PPSSCC estimates $200 million in revenues from vehicle sales in the first year.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC states, using a criterion that vehicles should be used 15,000 miles per year, that the management, utilization, and cost-effectiveness of the federal vehicle fleet can be improved if (1) the overall size of the federal fleet is immediately reduced by 100,000 vehicles to 336,338 (2) by Presidential directive, the Office of Management and Budget immediately initiates programs to develop a governmentwide fleet management information system, and (3) federal managers who are responsible for any federal vehicle fleet operation develop plans and delegate responsibilities to improve the operation of the remaining 336,338 vehicles by utilizing private sector options, such as using consultants to set up the management information system, and using private sector leased vehicles.

A reduction of the size of the federal vehicle fleet and improved management should result in savings. However, GAO has not studied agencies' current requirements for vehicles and related this to the quantity of vehicles on hand and how they are being used. Therefore, GAO has no basis for believing it would be appropriate to immediately reduce the federal fleet by a specific number of vehicles without first determining the optimum size for the fleet. Implementation of the recommendation to develop an information management system should provide the data needed to determine an optimum size for the federal vehicle fleet. GAO believes that whenever possible the private sector options for improved management of the remaining vehicles should be considered.

III. GAO ASSESSMENT OR IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC report says that its recommendations can be accomplished within the existing authority of federal agencies or by Presidential directive. GAO agrees that the

recommendations do not require legislation, although some costs for the establishment of a management information system may require congressional appropriation approval. The General Services Administration opposes immediate reduction of the inventory by 100,000 vehicles but has begun to improve its management information system and has taken other steps to reduce the number of vehicles, to improve vehicle utilization, and to reduce operating costs.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

Improved vehicle management and savings should result from better vehicle information and from consolidation of some motor pools. However, because GAO has not estimated how many vehicles could be reduced or to what extent vehicle usage could be increased it has no basis to judge the accuracy of the PPSSCC savings estimate. GSA estimates that combined savings from improvements in federal fleet vehicle management would be about $320 million over 3 years.

V. RELEVANT GAO REPORTS

GAO/LCD-78-245 Replacing Government Sedans Yearly Would Result in Fuel and Cost Savings (May 8, 1979)

GAO/LCD-77-215 Opportunities to Reduce the Cost of Government Vehicle Operations (Feb. 28, 1978)

GAO/B-158712 How Passenger Sedans in the Federal Government Are Used and Managed (Sept. 6, 1974)

VI. GAO CONTACT

James Mitchell 275-8676

TTM 1: FEDERAL TRAVEL PROCUREMENT

I. PPSSCC ISSUE AND SAVINGS

"Can federal travel services be provided in more efficient and cost-effective ways?"

The PPSSCC estimates that improved travel administration, together with the opportunities presented by deregulation, can result in 3-year savings of $984.0 million.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC report concludes that travel services to federal agencies can be provided in a more efficient and cost-effective way if the General Services Administration (GSA) (1) develops an in-house travel service contracting and negotiating unit, (2) establishes some employee-run travel centers, and (3) also continues to rely on some contractor-operated travel centers.

GSA presently has a centralized travel service contracting and negotiating unit staffed with government employees. GAO does not believe that travel centers, previously converted by GSA to contractor-operated centers should revert to government employee operated centers, although it might be appropriate to retain some government employee operated centers. GSA's April 1983 interim evaluation of the travel management center program indicated that the contractor-operated centers seem to be providing effective service and are operating at less cost to the government. The government does not pay the contract travel agents for the services they provide, although some agents currently use government facilities. Reductions of the number of federal employees involved in travel administration have also been been achieved, according to GSA.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

According to the PPSSCC, GSA has the authority to implement the three recommendations, although some congressional approval for additional funds may be necessary. GAO agrees with this assessment. GSA has already implemented the first and third recommendations but is continuing to use contractors instead of implementing the second recommendation.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO has not evaluated the procedures and systems that form the basis for the PPSSCC savings estimate. However,

there is an inconsistency in the PPSSCC's position. For example, the first PPSSCC recommendation suggests federal travel centers staffed by government employees; the second recommendation suggests continued use of contractor-operated travel centers.

Moreover, much of the savings projected by the PPSSCC represents the reduced cost of transportation. GSA has already been successful in negotiating contracts with air-lines that have resulted in reduced transportation costs. Furthermore, the PPSSCC position is that a government-operated travel service could obtain commissions from the airlines similar to those which private travel agencies are currently obtaining from the airlines. While we have not seen any evidence that the airlines are willing to pay the government commissions or rebates, GSA is attempting to obtain rebates from some of the contractors who will be operating the travel management centers.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

James Mitchell 275-8676

TTM 2: TRAVEL EXPENSE ACCOUNTING AND REIMBURSEMENT

I. PPSSCC ISSUE AND SAVINGS

"Are Federal travel expense accounting and reimbursement policies and procedures cost effective and efficient?"

The PPSSCC believes that improved reporting, accounting, and reimbursement procedures will result in savings of $171.2 million over 3 years.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC recommended that (1) a more effective accounting and collection system be established to provide an incentive for prompt clearance of cash advances and travel expenses; (2) a simplified voucher and flat-rate per diem system being tested by the Department of State be extended to other agencies if the system proves successful; (3) legislation be reenacted allowing GSA to collect outstanding travel advance data from federal agencies; and (4) the selective use of government-sponsored charge cards for frequent travelers be explored.

GAO believes the issue addressed by the PPSSCC recommendations has merit. GAO's reports have stressed better control over travel and simplified travel administration and thus are generally consistent with the PPSSCC's findings. The PPSSCC recommendation dealing with government-sponsored charge cards is consistent with GSA's current program.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC says that the recommendations concerning more rapid settlement of expenses and advances, selective implementation of a flat-rate per diem system and the use of credit cards can be implemented within agency authority. The reporting to GSA of data on advances would require renewal of legislation that has expired. GAO believes these recommendations are feasible but that congressional action may be required for both the flat-rate per diem and the data collection. GSA is continuing to test the use of credit cards and believes this will also provide an incentive to settle travel expenses more quickly.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO believes that the measures proposed by the PPSSCC would produce savings, but GAO has no basis to assess the accuracy of the PPSSCC's savings estimate.

The current federal travel procurement, cash advance, reimbursement, and accounting procedures are not effectively integrated or coordinated so that all expenditure and cash advance items can be tracked and accounted for systematically. However, the savings attributable to improved reporting and accountability provisions through the creation of incentives for more careful expenditure of the travel dollar, more accurate recordkeeping, and more timely clearance of expense accounts are not readily quantifiable.

V. RELEVANT GAO REPORTS

GAO/AFMD-81-18	Increased Productivity in Processing Travel Claims Can Cut Administrative Costs Significantly (Jan. 19, 1981)
GAO/FPCD-81-13	Proposals for Improving the Management of Federal Travel (Dec. 24, 1980)

VI. GAO CONTACT

James Mitchell 275-8676

I. PPSSCC ISSUES AND SAVINGS

"Would the adoption of locality-based flat per diem rates for reimbursement of subsistence costs for field examiners be cost effective and can the outstanding travel advance balances be reduced?"

The PPSSCC recommended adopting locality-based flat per diem rates to reimburse subsistence costs. It estimated cost savings for that action at $1.3 million over 3 years. The PPSSCC also recommended using corporate credit cards to eliminate travel advances and estimated cost savings for that action at $0.3 million over 3 years.

II. GAO ANALYSIS OF ISSUES AND ASSOCIATED RECOMMENDATIONS

In a 1981 report, GAO agreed that flat-rate reimbursement could potentially reduce processing costs but did not develop cost savings estimates or related recommendations. GAO did cite disadvantages to flat-rate reimbursement though, such as (1) grouping cities by small cost increments would create constant pressure to move cities from lower to higher brackets, and (2) setting a rate that would provide reasonable reimbursement and still limit the potential for overcompensation would be difficult. GAO also concurred with an Office of Management and Budget Interagency Travel Management Improvement Project (ITMIP) decision to study the merits of flat-rate reimbursement as a long-range effort to reduce the cost of travel. ITMIP finished the study and concluded that the flat-rate reimbursement could result in substantial cost reductions. The PPSSCC recommendation to adopt locality-based flat per diem reimbursement is based on the ITMIP report. GAO agrees that the recommendation should result in cost savings and easier administration, especially if agencies consider the possible drawbacks cited earlier by GAO.

GAO has not studied the issue of using corporate credit cards. The PPSSCC recommendation seems reasonable, however, if its assumptions about the decreased administrative costs of such a system are valid.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The Federal Home Loan Bank Board (FHLBB) agreed with the PPSSCC recommendation to adopt flat-rate per diem reimbursement. The National Credit Union Administration (NCUA) said it would convert to a flat-rate schedule if instructed

to do so by the General Services Administration (GSA), but suggested that the PPSSCC cost savings estimates are highly inflated. For either agency to adopt the recommendation, legislation would be required.

Regarding the PPSSCC credit card recommendation, NCUA was using Diners Club cards prior to the PPSSCC report and has already eliminated travel advances. FHLBB began phasing in Diners Club cards in October 1983 and has practically eliminated travel advances as of August 1984. FHLBB reported administrative cost savings of approximately one full-time equivalent staff year by using credit cards.

IV. GAO ANALYSIS OF SAVINGS ESTIMATES

Travel costs can be reimbursed through the following schedules--lodging-plus, actual, mixed (which combines the first two), or flat-rate. GAO did not measure the costs of processing flat-rate vouchers. However, in 1981 GAO reported these cost estimates for other reimbursement schedules:

Lodging-plus	\$20.62 per voucher
Actual (high rate areas)	\$36.35 per voucher
Mixed	\$46.41 per voucher

The PPSSCC assumed that compared to other reimbursement schedules, flat-rate per diem reimbursement would result in reduced administrative processing time and easier maintenance of travel policy manuals. Those assumptions seem reasonable. The PPSSCC also assumed a 13-percent cost differential between lodging-plus and flat-rate reimbursement schedules. GAO cannot substantiate that assumption since it did not measure the costs of processing flat-rate vouchers.

Even if the PPSSCC assumption is correct, however, its savings estimate for implementing flat-rate reimbursement may be too high. The PPSSCC estimated that adopting flat-rate reimbursement schedules would result in cost savings of \$392,058 per year. The cost savings estimate is high since it is based only on a comparison to the highest (mixed reimbursement) cost figure of \$46.41. Use of the \$46.41 figure would only be accurate if all travel claims required a mixed reimbursement method in processing. That is not the case. The low cost savings estimate, if all claims were processed according to the lodging-plus method, would be \$36,984. Thus, savings based on the PPSSCC assumptions could range between \$36,984 and \$392,058 per year.

The logic of the recommendation to use corporate credit cards is sound. The predicted savings should occur if the administrative costs of using credit cards are not greater than those of the current system.

V. RELEVANT GAO REPORTS

GAO/AFMD-81-18	Increased Productivity in Processing Travel Claims Can Cut Administrative Costs Significantly (Jan. 19, 1981)
GAO/FGMSD-80-13	Improving the Productivity of Federal Payment Centers Could Save Millions (Feb. 12, 1980)

VI. GAO CONTACT

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TTM 3: TRAFFIC MANAGEMENT

I. PPSSCC ISSUE AND SAVINGS

"Are the Government's efforts to create automated transportation procurement and traffic management adequate from a cost reduction and cost-efficiency standpoint?"

By increasing agency ability to compile, analyze, and use comprehensive traffic data through automation, the PPSSCC expects the 3-year savings to be $529.6 million.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC report recommends that an automated system providing comprehensive traffic data be developed to meet the needs of both traffic managers and freight auditors throughout government. GAO agrees with the main thrust of this recommendation. The 1980 deregulation of the transportation industry has caused carrier and rate proliferation. It is becoming virtually impossible to efficiently determine appropriate rates and routes without computer assistance. The data base for making such determinations now includes literally millions of rates and routes which are changing daily and increasing in numbers. It is equally difficult to audit freight rates, given the enormous number of rates and routes which must be checked to determine if the lowest rate and route was selected.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC report said that the establishment of a governmentwide system could be initiated with the agencies' existing authority but should be initiated by a directive from the President. GAO agrees and GSA has already begun action. GSA awarded a contract for an automated freight rate system in November 1983. The system is to compare class and commodity rates via all modes of transportation (except airline, air freight forwarder, and pipeline) including the special government rates and routes contained in the data files. This comparison will show the lowest cost rates in cost-ascending order and available routings at the lowest cost charge.

Use of the automated system to audit freight charges is now being considered but an implementation schedule has not been developed. In its present form, the system is not fully responsive to the traffic manager or the freight auditor. GAO believes that more relevant rate information must be included in the system in order for it to be a viable replacement for the manual systems now used.

Better coordination among federal agencies is needed to develop and implement systems with governmentwide application.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO believes that an automated system to select routes and modes of shipment, or to audit those already selected, can result in savings. But GAO has not evaluated this process sufficiently to express an opinion about the PPSSCC's projection of savings.

V. RELEVANT GAO REPORTS

GAO/LCD 77-270 GSA Can Improve Traffic Management Practices (July 28, 1978)

VI. GAO CONTACT

James Mitchell 275-8676

TTM 4: TRANSPORTATION AUDIT

I. PPSSCC ISSUE AND SAVINGS

"Can the audit of Government freight transportation payments be improved and higher rate overcharge recoveries be achieved?"

The PPSSCC believes that improved auditing procedures for identifying rate overcharges could result in 3-year savings of $165.2 million.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC report concludes that the audit of government freight transportation payments can be improved and higher rate overcharge recoveries achieved if the General Services Administration (GSA) (1) uses private rate auditors to reduce GSA's audit backlog, (2) studies ways to automate GSA's audit process, and (3) obtains repeal of the legislation preventing prepayment audit and reduction of transportation payments.

GAO agrees there is a need to reduce the backlog of audits of government freight transportation payments. Increased use of commission-compensated professional rate audit capability could assist in reducing the current work backlog, and should be economical because the auditors are paid a commission based on identified and collected overcharges. GAO concurs with the PPSSCC's recommendation that a study be conducted to compare the benefits from improved in-house audit efficiency through automation with the continued use of private-sector rate auditors on a long-term basis.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC said that the recommendation to use private sector capability to reduce GSA's freight transportation payment audit backlog can be accomplished under GSA's current authority. The PPSSCC said the same for the study of in-house automated systems. But it suggests an order from the Office of Management and Budget to ensure the support of all agencies. GAO agrees. GSA has utilized private contractors for transportation audit. GSA disagrees with the PPSSCC recommendations to test computerized audit and to introduce legislation for repeal of the prepayment audit prohibition and has taken no action. GAO believes that GSA should explore opportunities for automation and some form of prepayment audit, so long as payment to the carriers is not delayed.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO agrees that some savings can be achieved through improvements in the transportation audit process. However, GAO believes the savings estimates provided by the PPSSCC are questionable. The PPSSCC found that freight charges subject to GSA audit in fiscal year 1982 totalled $4.6 billion and that GSA's recovery rate was 0.37 percent of total transportation expenditures, compared to a private sector recovery rate of 1.75 percent. GAO believes there are two principal problems with the PPSSCC estimate. First, the $4.6 billion is overstated. GSA data indicates that, in fiscal year 1982, about $2 billion in transportation charges was subject to its postaudit. Second, GAO believes the PPSSCC's use of a 1.75 percent recovery rate is optimistic. The PPSSCC bases its use of this rate on interviews with rate audit contractors, consultants, and automated tariff contractors, but no specific support is provided.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

James Mitchell 275-8676

I. PPSSCC ISSUE AND SAVINGS

"Can the annual increases in storage costs related to the growing volume of federal records be halted by limiting retention periods to useful reference life and by improving agencies' records management practices?"

The PPSSCC estimated that halting the growth of annual records storage costs would result in 3-year savings of $29 million.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC recommended that federal record retention periods not exceed the useful life of the records. Toward this end, it also recommended that the government establish procedures to promptly resolve disagreements--about how long these periods should be--between the National Archives and Records Service (NARS), which oversees the management of federal records, and the individual agencies, whose records are being stored. The PPSSCC also recommended that federal agencies, with NARS' guidance, bi-annually review their records management practices to achieve needed improvements. GAO agrees with the thrust of the PPSSCC's recommendations, although GAO believes it unlikely that bi-annual reviews, particularly of record retention periods, are needed. In this connection, the Paperwork Reduction Act of 1980 (P.L. 96-511) requires that OMB and GSA selectively review each agency's information management practices--including records management--at least once every 3 years.

The PPSSCC relied extensively on GAO reports in developing its recommendations. For example, in 1973, GAO recommended that NARS (1) monitor agencies' record control schedules and ensure they are complete and up-to-date, and (2) review record usage patterns to ensure that retention periods are realistic.

In 1981, GAO reported that persistent records management problems had not been corrected, despite many opportunities for savings, and noted that, historically, resources devoted to the oversight of records management have been limited and management attention to this issue inadequate.

Significantly, the PPSSCC report notes the persistence of long-standing problems: the lack of clear-cut authority for NARS to establish firm disposition schedules, the reductions in NARS' budget, and the general lack of top-level management attention to this issue. These observations are consistent with GAO's findings in reports spanning several years.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC states, and GAO agrees, that its specific recommendations can be implemented through executive action. In theory, NARS itself could essentially implement the PPSSCC recommendations. However, on a more practical level, the pervasiveness of the problem, the difficulties NARS has in gathering the necessary support from the many other agencies involved and the general lack of top management attention to this issue reduces the feasibility of implementing the PPSSCC's recommendations. Nevertheless, the PPSSCC recommendations deserve attention and efforts to implement them can result in improvements, if not total success.

GAO is not aware of specific actions on the PPSSCC recommendations, although NARS is continually working with agencies to establish record retention periods and to dispose of unneeded records. Also, as noted above, the Paperwork Reduction Act requires triennial studies of agencies' information management practices, but GAO is not aware of the extent to which records management issues are being addressed.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The cost factors and assumptions the PPSSCC used are based on NARS' data and are reasonable. Whether the PPSSCC's $29 million estimate can be achieved over a 3-year period is dependent on many variables; however, there is no question that substantial savings can be achieved through improved records management practices.

V. RELEVANT GAO REPORTS

GAO/GGD-81-59	Need to Establish Retention Periods and Optimal Time for Microfilming Military Personnel Records (Apr. 27, 1981)
GAO/PLRD-81-2	Federal Records Management: A History of Neglect (Feb. 24, 1981)
GAO/LCD-80-48	Program to Improve Records Management Practices Should be Funded by Direct Appropriations (June 23, 1980)
GAO/B-146743	Ways to Improve Records Management Practices in the Federal Government (Aug. 18, 1973)

VI. GAO CONTACT

James Mitchell 275-8676

PPAV 3: IMPROVING MAILING LISTS

I. PPSSCC ISSUE AND SAVINGS

"Can substantial annual savings be realized by improving agency mailing lists used to distribute free publications?"

The PPSSCC reported that improved mailing list management throughout the government would save $95.9 million over 3 years.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

To improve government mailing lists and achieve economies, the PPSSCC recommended that:

(1) The agencies submit to the Office of Management and Budget (OMB) for approval, their plans for canvassing their mailing lists;

(2) The General Services Administration (GSA) promote the use of an available software package for consolidating and canvassing agency mail lists;

(3) The Office of Personnel Management (OPM) establish an official job classification for publications distribution management; and

(4) The National Bureau of Standards expedite the publication of Federal Information Processing Standards on mail list management.

It appears to GAO that the issue has merit because it is aimed at improving the economy and efficiency of government mailings by providing direction and guidance to agencies. GAO agrees that agencies should make use of available software to consolidate mailing lists and reduce mailing costs. Recipients of mailings can lose their interest in a publication, and duplicate mailings can occur.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that implementation of the recommendations appears to require no legislative changes. Submitting agency plans to OMB for canvassing the mailing lists and using automated data processing software packages to eliminate duplicate mailings appear feasible. Because GAO has done little, if any, work in the areas addressed by the last two recommendations, it cannot comment on their feasibility.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The major premise of the PPSSCC cost savings estimate is valid, since reducing the agency mailings can effect cost savings. However, GAO has not analyzed the PPSSCC estimate in detail and cannot comment on its overall validity.

V. RELEVANT GAO REPORTS

GAO/IMTEC 84-17	The Status of the Statistical Community After Sustaining Budget Reductions (July 18, 1984)
GAO/GGD-80-50	Problems in Developing the 1980 Census Mail List (Mar. 31, 1980)
GAO/GGD-82-13	A $4 Billion Census in 1990: Timely Decisions on Alternatives to 1980 Procedures Can Save Millions (Feb. 22, 1982)

VI. GAO CONTACT

Thomas Giammo 275-4659

PPAV 4: MAIL MANAGEMENT IMPROVEMENT

I. PPSSCC ISSUE AND SAVINGS

"Can substantial annual savings be realized by more efficient management of postage and mail handling practices (e.g., use of the most cost-effective class of postage, size and weight of envelopes and paper, bulk mail, etc.)?"

The PPSSCC projected that improved government mail management would produce a cost savings of $549.5 million over the next 3 years.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC recommends that:

(1) The General Services Administration (GSA) and the U.S. Postal Service (USPS) improve measurement of agency mail costs.

(2) GSA monitor agency compliance with the 1979 National Archives and Records Service reports.

(3) The Office of Management and Budget direct agencies to implement improved mailing operations.

(4) GSA provide technical assistance to agencies to improve their mail management.

GAO believes these recommendations have merit to the extent that any activities that foster improvement and economy should be encouraged. On the basis of its own observations and work, GAO believes that government mail operations in general are inefficient and uneconomical. GAO agrees that opportunities exist for reducing mail costs. In the past, agencies have assigned a low priority to mail management. Direction and guidance from above could alter this attitude.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that USPS has adequate authority to implement the recommendations. However, GAO has reservations about the feasibility of implementing the four recommendations. These reservations are based on the lack of commitment exhibited by federal agencies to cut mail costs and the limited amount of resources assigned to government mail management by USPS and GSA. Until these concerns are addressed, GAO believes USPS and GSA may not succeed in instituting the desired changes with the comprehensiveness needed to significantly reduce mail costs.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The basic premise of the PPSSCC that improved mailing operations can save the government money is valid. For instance, through more efficient mail management, GAO increased its outgoing mail volume without increasing total mail costs. GAO has not evaluated the PPSSCC's government-wide savings estimate.

GAO cautions that certain operational factors should be considered in assessing the benefits of changing the class of mail service from first to third class. For example, the PPSSCC reported that the Census Bureau could reduce its annual mail costs by $400,000 by using third- instead of first-class mail to send copies of surveys and publications. The Census Bureau tried using third-class mail in its 1978 Census of Agriculture (one of its largest surveys) and reverted to using first-class mail in the 1982 census. The Bureau found that delivery was much slower using the cheaper mail service and that "return to sender" or mail forwarding either took significantly longer or was not accomplished. These factors detracted from the effectiveness of the Bureau's operations and should be considered when selecting the type of mail service.

V. RELEVANT GAO REPORTS

GAO/LCD-80-68 Program to Improve Federal Records Management Practices Should Be Funded By Direct Appropriations (June 23, 1980)

VI. GAO CONTACT

Thomas Giammo 275-4659

PPAV 5 AND CONG 2-9: IMPROVEMENTS TO PRINTING PRODUCTION

I. PPSSCC ISSUE AND SAVINGS

"Could the printing, duplicating, and commercial procurement services of the Government agency in-house print shops be accomplished more efficiently and cost effectively?" (This issue statement, from issue PPAV 5, applies equally well to issue CONG 2-9. Despite the wording of issue CONG 2-9's title, the discussion is of agency, not Government Printing Office (GPO) plants.)

The PPSSCC estimates cost savings of $158.9 million in the first 3 years from plant eliminations and consolidations, increased commercial procurements, the operation of a central plant, and various combinations of the above. In issue CONG 2-9, done somewhat later, 3-year cost savings of $99.3 million were estimated from 130 plants targeted at that time by the Office of Management and Budget (OMB) for downgrading or closure.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO agrees with the PPSSCC that opportunities exist for increased efficiency and effectiveness in agency printing operations. In fact, three GAO reports on agency printing issued between 1974 and 1981 were cited and used extensively by the PPSSCC. These reports demonstrated that printing costs could be reduced through increased commercial procurement in some cases and multiagency shared printing support in other cases.

GAO believes five of the six PPSSCC recommendations have merit. These include: (1) OMB leadership of an effort to reduce executive agency printing costs, (2) OMB implementation of a long-range planning process for executive agency printing, (3) GAO assistance to Congress' Joint Committee on Printing (JCP) to improve printing data collection forms, (4) more systematic and current JCP audits of agency plants, and (5) more coordination with other management information functions within agencies. However, the Justice Department in three opinions since March 1984 has challenged the traditional role of the JCP in oversight of executive branch printing management (Memorandum from Office of Legal Counsel to Deputy Secretary of Defense, March 2, 1984; and to Counsel to the Director, Office of Management and Budget, April 11, 1984 and August 21, 1984). This raises questions about the specifics of those recommendations which call for JCP involvement. GAO has no basis for an opinion on the sixth PPSSCC recommendation to make printing subject to OMB Circular A-76, which provides policies and procedures to determine whether commercial goods and services should be

obtained by contract with private sources or provided in-house using government facilities and personnel.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC stated that its six recommendations can be implemented without change in legislative authority. GAO agrees that five of the six recommendations can be implemented without legislation by the organizations PPSSCC cites--OMB, executive agencies, JCP, and GAO. The sixth recommendation--to include printing in the coverage of OMB Circular A-76--appears to require a legislative change to Title 44, U.S. Code, rather than an administrative change in policy as PPSSCC states. However, the Justice Department opinions raise some doubt as to the applicability of Title 44's provisions.

In early 1983 OMB used its general management and budget review authority to initiate a project to review executive branch civilian agencies' in-house printing activities with the goal of reducing costly in-house printing. GPO participated by providing technical assistance and introducing a new contracting method to facilitate contract printing procurement. (The JCP, recommended by the PPSSCC to be a partner in this effort, was originally involved but was not consulted on recommended plant closures and increased contracting.) In all, 275 civilian agency plants were recommended for downgrading or closure. Of these, the fiscal year 1985 budget shows that agencies agreed to 111 downgrades or closures.

OMB continues to exercise oversight through the annual budget process and through a task force set up to assess Defense Department printing, which was largely excluded from the original OMB review. However, in the future OMB does not plan to give this project the strong emphasis in civilian agencies that it had in the last 2 years.

Executive branch agency officials suggest that the OMB review caused them not only to assess having the private sector do more contract work, but also to look closely at steps they can take to reduce cost per unit for printing they will retain in-house.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO believes the PPSSCC's 3-year savings estimate of \$158.9 million is overstated. OMB recently projected savings of \$31.5 million for 3 years from the 111 plant closings and downgradings agreed to by executive agencies as a result of the OMB review. Various studies are being done of 164 other proposed civilian agency closures and downgradings. It seems unlikely that enough of these and the

Defense Department plants currently being reviewed will be closed or downgraded to make up the difference between the $158.9 million PPSSCC estimate and the OMB estimate of $31.5 million. Also, since few new contracts have been awarded for private sector printing, it is not certain that contract costs will be as low as estimated. If not, the cost savings will not be as great as assumed in making the $31.5 million estimate.

V. RELEVANT GAO REPORTS

GAO/PLRD-81-31	Agency Printing Plants--Choosing the Least Costly Option (June 19, 1981)
GAO/LCD-77-408	Government Printing Operations Improvements Since 1974 (Feb. 22, 1977)
GAO/B-114829	Agency Printing and Duplicating Operations Need Improvement (Nov. 1, 1974)

VI. GAO CONTACT

James Mitchell 275-8676

CHAPTER 9

FEDERAL AUTOMATED DATA PROCESSING/ OFFICE AUTOMATION OPERATIONS

The PPSSCC identified 65 issues related to the federal government's automated data processing/office automation (ADP/OA) operations. These issues, which focus on ways to increase the effectiveness of federal ADP/OA activities, dealt with central ADP/OA management and agency leadership; government-wide management of major information resources, including ADP hardware, software, telecommunications, and OA; and specific issues identified in individual agencies' ADP/OA operations.

This chapter includes GAO's analyses of 39 of the 65 total issues with associated PPSSCC savings estimates totalling about $15 billion. The remaining issues, while relating to ADP/OA activities, more directly address issues such as cash management, inventory management, or debt collection systems and are therefore discussed as part of other report chapters. GAO found overall merit in 38 of the 39 issues. GAO does not support the issue and principal recommendation of accelerating the automation of the Agriculture Stabilization and Conservation Service's county offices. For the most part, GAO has insufficient basis for judging the reasonableness of the PPSSCC's savings estimates in this area, although in a number of cases, the estimates presented by the PPSSCC seem too high. Of the 39 issues, five contain component recommendations which require legislative action before they can be fully implemented.

ADP 1: FEDERAL ADP LEADERSHIP AND DIRECTION

I. PPSSCC ISSUE AND SAVINGS

"Can the implementation of a centralized automated data processing (ADP) management mechanism within the Executive Branch resolve the present Federal data processing crisis characterized by increasing obsolescence and operational inefficiency?"

The PPSSCC did not develop a specific estimate of savings potential for this issue. However, the PPSSCC stated that the governmentwide cost savings and cost avoidance attributable to such a mechanism could be approximated by the total savings potential identified in the full ADP task force report. According to the PPSSCC, these savings can be realized only through improved ADP central coordination, planning, and management.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC recommended that:

(1) The resources provided to the Office of Management and Budget's (OMB's) Office of Information and Regulatory Affairs (OIRA) by the Paperwork Reduction Act be reallocated to form the Office of Federal Information Resources Management, which is outside OMB's jurisdiction.

(2) The President appoint a Federal Information Resource Manager within its proposed Office of Federal Management (see Issue FMS-1) and assign the manager several information-related responsibilities, including ensuring full compliance with the Paperwork Reduction Act (Public Law 96-511).

GAO agrees that the issue--proper implementation of responsibilities assigned the central ADP management mechanism--is valid and is consistent with the ADP-related provisions of the Paperwork Reduction Act in establishing a central ADP management authority. GAO also agrees that the central authority needs to effectively implement its responsibilities.

However, the PPSSCC's proposed recommendations related to the management structure would do little to alter the management structure put in place by the Paperwork Reduction Act, and would not guarantee effective implementation of the central ADP management authority's responsibilities. The Paperwork Reduction Act, which GAO supports, established OIRA as the central policysetting and oversight manager for the government's information activities, including ADP.

The PPSSCC's first recommendation, to remove OIRA from OMB, is not consistent with the PPSSCC's proposal (FMS-1) to create an Office of Federal Management. This new office would assume OMB's current responsibilities, including OIRA's responsibilities, and be assigned some additional management functions. Also, the position described in the PPSSCC's second recommendation is generally the same as that of the OIRA Administrator.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

No action agent is identified for the first recommendation; however, either congressional action to amend the Paperwork Reduction Act or presidential action through presentation of a reorganization plan to the Congress would be required to implement the recommendation. GAO agrees with the PPSSCC that presidential action would be required to implement the second recommendation. GAO believes the recommendations are feasible, should the decision be made to implement them.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC did not develop a specific estimate of savings for this issue.

V. RELEVANT GAO REPORTS

GAO/IMTEC-84-24	The Office of Management and Budget's Actions Show Progress in Implementing the Paperwork Reduction Act of 1980 (Sept. 7, 1984)
GAO/GGD-83-35	Implementing the Paperwork Reduction Act: Some Progress, But Many Problems Remain (Apr. 20, 1983)

VI. GAO CONTACT

Thomas Giammo 275-4659

ADP 2: AGENCY ADP MANAGEMENT

I. PPSSCC ISSUE AND SAVINGS

Will strengthening the role and position of agency information resources management (IRM) officials result in improvements in automated data processing/office automation planning, acquisition, development, and operations within agencies?

No specific estimate of savings potential was developed by the PPSSCC. However, the PPSSCC stated that implementation of measures to ensure the appropriate role of the IRM officials governmentwide is a mandatory prerequisite to the potential cost savings described elsewhere in the ADP Task Force report.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC recommended that:

(1) The central agency IRM official revise Office of Management and Budget (OMB) Bulletin 81-21 to provide more guidance to the agencies on the intended role of the agency IRM officials and guidance for selecting the agency IRM officials.

(2) Each agency establish an information management steering committee to guide the agency IRM official in such areas as setting the direction for agency IRM activities, rationing resources, structuring the organization, and selecting staff.

GAO agrees that both the issue and PPSSCC's recommendations have merit. GAO concluded in its 1983 report (GAO/GGD-83-35) that Bulletin 81-21 offered only minimal guidance to the agencies in establishing their senior IRM officials. Most departments and agencies have appointed their Assistant Secretaries for Administration or persons with similar responsibilities as the designated IRM officials. GAO has stated (GAO/GGD-82-9) that the Treasury's appointment of its Assistant Secretary for Administration as the senior IRM official was not an appropriate choice because of the many other non-information-related responsibilities (personnel, budget, procurement, etc.) assigned to the Assistant Secretary. GAO recommended that the Treasury limit its senior official's duties to those required by the Paperwork Reduction Act (Public Law 96-511). GAO also recommended that OMB provide clear-cut guidance to the agencies for implementing their responsibilities under the act. Furthermore, GAO has generally advocated steering committees as an important function to ensure that activities cutting

across agency functions and programs are properly directed to serve all mission interests.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that adequate executive branch authority exists at the Executive Office and agency levels to carry out recommendations covered by the issue. GAO also agrees that the recommendations are consistent with the intent and scope of the Paperwork Reduction Act, which GAO supports. GAO believes both the issue and the recommendations are feasible. OMB's Administrator for Information and Regulatory Affairs has not taken action to revise Bulletin 81-21 or to provide further formal guidance to the departments and agencies on either the role or the selection of the agency IRM official.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

No specific estimate of savings was developed by the PPSSCC.

V. RELEVANT GAO REPORTS

Testimony	Extending the Authorization of the Paperwork Reduction Act of 1980, by Charles A. Bowsher, Comptroller General of the United States, before the Subcommittee on Information Management and Regulatory Affairs, Senate Committee on Governmental Affairs. Apr. 4, 1984.
GAO/GGD-83-35	Implementing the Paperwork Reduction Act: Some Progress, But Many Problems Remain (Apr. 20, 1983)
GAO/GGD-82-9	The Treasury Department and Its Bureaus Can Better Plan for and Control Computer Resources (Feb. 22, 1982)

VI. GAO CONTACT

Thomas Giammo 275-4659

I. PPSSCC ISSUE AND SAVINGS

Will efforts to promote the current trend in the General Services Administration's (GSA's) role, which is shifting from strict oversight of automated data processing/office automation (ADP/OA) acquisition to granting more agency autonomy and providing technical support, result in cost savings and improved management efficiencies?

Calculating governmentwide savings is difficult, according to the PPSSCC. It stated that improvements resulting from a shorter procurement cycle and centralization of the technical support services are changes which can result in substantially improved ADP management and operations.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC reported that, although the capabilities and cost-effectiveness of ADP technology constantly increased during the 1970s, the government's ability to effectively incorporate this technology has not kept pace. The government's ADP acquisition process indicates a disproportionate concern with "process accountability." However, despite the fact that the process involves review upon review, signature authority after signature authority, there is no one person or section that is ultimately responsible. Even with multi-layered review requirements, there is still no ultimately responsible figure. To correct these problems, the PPSSCC recommended the following:

(1) Upon demonstration of agency technical competence, increased procurement authority for ADP/OA systems and components should be delegated by GSA to agencies for a specified period of time.

(2) GSA should publish an acquisition guidebook for ADP hardware, software, and services.

(3) GSA's Office of Information Resources Management (OIRM) should add a technical advisory group to the Information Resources Procurement Office.

(4) OIRM should continue to maintain an up-to-date, complete inventory of all government ADP/OA hardware, software, and communications capabilities, except when national security considerations prevent it from doing so.

(5) The agency Information Resource Manager should carefully weigh the cost of benchmarking[1] techniques against the benefits when undertaking a major acquisition.

On the basis of previous work, GAO generally agrees with the PPSSCC concerns and the intent of the recommendations. It believes that good management practices must be used in cases when increased agency autonomy is given by GSA. Also, criteria and guidance should be published for conducting evaluations to ensure that agency processes are following the desired practices.

Although GSA has issued some guidance regarding acquisitions, GAO agrees with the PPSSCC recommendation that more guidance is needed. GAO believes an inventory of government hardware, software, and communications capabilities could be beneficial if the information maintained is current and accurate. However, it may be an impossible task because of the volume of information on the different types of equipment and software. A more practical solution may be to maintain only a selected inventory with information that has a demonstrated managerial benefit related to the cost of the inventory.

GAO believes benchmarking is an appropriate evaluation technique, but it should be used selectively. Also, GAO has recommended the Federal Procurement Regulations be revised so that benchmarking is discouraged for computer equipment procurements with a projected system life contract value of less than $2 million.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO believes the recommendations are feasible and that GSA has the authority to implement these recommendations. The Federal Procurement Regulations Temporary Regulation 71, issued by GSA on July 22, 1983, for the period beginning September 1, 1983, and ending September 30, 1985, raises the delegation of procurement authority thresholds, thereby giving greater autonomy to federal agencies in meeting their ADP resources needs. GSA has issued the End User's Guide to Buying Small Computers, dated August 1984, and Managing End User Computing in the Federal Government, dated June 1983, thereby providing guidance to federal agencies in these areas. GAO does not have current information on the implementation of the PPSSCC recommendations.

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[1]A set of computer programs and associated data tailored to represent a particular workload and used to evaluate system performance and cost.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO agrees with the PPSSCC evaluation that calculating savings is difficult, but it believes that implementing these recommendations could help improve ADP management and operations.

V. RELEVANT GAO REPORTS

GAO/AFMD-81-20	Government-wide Guidelines and Management Assistance Center Needed to Improve ADP Systems Development (Feb. 20, 1981)
GAO/AFMD-83-5	Benchmarking: Costly and Difficult, But Often Necessary When Buying Computer Equipment or Services (Oct. 22, 1982)
GAO/AFMD-81-9	Continued Use of Costly, Outmoded Computers in Federal Agencies Can Be Avoided (Dec. 15, 1980)
GAO/LCD-80-53	Reduced Communications Costs Through Centralized Management of Multiplex Systems (May 14, 1980)

VI. GAO CONTACT

William Franklin 275-3188

ADP 4: HARDWARE AND SOFTWARE RESOURCES MANAGEMENT

I. PPSSCC ISSUE AND SAVINGS

"What can be done about the widespread existence of economically unsound and technologically obsolete computer hardware and software, and how can the automated data processing (ADP) resources of the Federal Government be kept up-to-date and effective?"

The PPSSCC stated that investments of time and resources devoted to this challenge over the next few years could provide opportunities to save many billions of dollars in the late 1980s. It projected that a net savings of $4 billion could be achieved in the first 3 years.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC reported that many ADP systems now in the government need to be upgraded or replaced to be responsive to, and supporting of, agency missions. To accomplish this objective, the PPSSCC recommended that:

(1) Each agency undertake an examination of major ADP system operations to determine the state of obsolescence and mission responsiveness;

(2) The agency Information Resource Manager determine ways and means for consolidating and enhancing agencywide systems operations.

(3) The Federal Information Resource Manager, through the General Services Administration (GSA), issue and advocate the applications of a variety of planning and technical tools and concepts for the guidance of agency ADP operations.

On the basis of previous work, GAO agrees with the PPSSCC's recommendations and believes this is an area that warrants intensive high-level management attention. Agencies should examine their major ADP operations, including both hardware and software, to determine the state of obsolescence and mission responsiveness.

With the necessary technical support from GSA, GAO believes that agencies can and should conduct a detailed analysis of individual system effectiveness to find ways of consolidating and enhancing systems operations agencywide. GAO has reported that available alternatives to traditional software development can significantly reduce the cost and time needed to satisfy application software needs.

GAO also supports the PPSSCC's recommendation that better use can be made of planning and technical tools. A variety of software tools is available, which agencies should be using to achieve savings and/or greater management control.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO believes that the recommendations are feasible and agrees with the PPSSCC that the agencies have the authority to implement the first two recommendations and the Office of Management and Budget and GSA have the authority to implement the third recommendation. However, strong management support in the agencies is required to be effective. Some constructive action has already been taken by GSA; for example, forming the Technology Update Program to assist agencies in replacing outmoded ADP equipment. The implementation status of the others is not known by GAO.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO does not believe that the major portion ($3.4 billion) of the PPSSCC's savings estimate is attainable within the first 3 years. The PPSSCC apparently used a GAO report (GAO/AFMD-81-9) which reflected the savings obtainable by replacing older equipment with leased equipment. GAO's sample of four installations was not a statistical sample, and thus the savings cannot be projected to the entire federal government. GAO agrees, however, that this is a good area for savings and should be aggressively pursued.

The remaining portion of the PPSSCC's savings estimate ($614 million) applies to the use of common systems within the federal government and an estimated 20-percent ongoing reduction in support requirements. On the basis of prior work, GAO believes that the ADP personnel savings (normally a component of the support requirements) from the use of common systems would be allocated to other applications. Therefore, the budget reductions probably will not occur.

V. RELEVANT GAO REPORTS

GAO/AFMD-83-29	Federal Agencies Could Save Time and Money with Better Computer Software Alternatives (May 20, 1983)
GAO/AFMD-82-4	Improving COBOL Applications Can Recover Significant Computer Resources (Apr. 1, 1982)
GAO/AFMD-81-25	Federal Agencies' Maintenance of Computer Programs: Expensive and Undermanaged (Feb. 26, 1981)

GAO/FGMSD-80-38	Wider Use of Better Computer Software Technology Can Improve Management Control and Reduce Costs (Apr. 29, 1980)
GAO/AFMD-81-9	Continued Use of Costly, Outmoded Computers in Federal Agencies Can Be Avoided (Dec. 15, 1980)

VI. GAO CONTACT

William Franklin 275-3188

ADP 5: TELEPROCESSING RESOURCE MANAGEMENT

I. PPSSCC ISSUE AND SAVINGS

"How should teleprocessing (TP) technology be managed to help achieve Governmental and agency mission objectives in a cost-effective manner?"

Federal telecommunications operations, including voice, data, and video transmission are an increasingly important management concern. Voice and video communications are outside the scope of this study. Data communications (i.e., teleprocessing), however, is an integral component of automated data processing (ADP) resources management. The PPSSCC estimated that increased awareness of TP alternatives and applications, sharing of communication links by multiple agencies, and economies of scale could reduce costs by approximately $220 million a year. According to the PPSSCC, the cumulative net 3-year savings would total $517 million.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

According to the PPSSCC, (1) TP resource cost is not documented separately; (2) no central inventory exists of the current TP applications; (3) end users' levels of utilization and cost are not being systematically allocated; (4) modern technologies are not being applied to the Federal Telecommunications System, which is managed by the General Services Administration (GSA), or to private or leased circuits; and (5) individual agencies are generally acquiring data communications networks from commercial carriers for their own use.

The PPSSCC made the following recommendations to improve TP resource use and management:

(1) Amend the existing Office of Management and Budget (OMB) Circular A-121 to require that budget document 43B specifically document subcategories of telecommunications costs, including TP, commercial services, interagency services, and special purpose commitments.

(2) Require GSA, as an extension of the existing ADP inventory collection, to document the pertinent characteristics of federally operated data networks.

(3) At a consolidated level, the Federal Information Resource Manager (FIRM) should conduct, by reviewing agency five year plans, a complete analysis and document ADP systems employing significant,

recurring levels of TP resources/cost. The FIRM should use this mechanism to develop opportunities for cost sharing, higher efficiency data movement, and enhanced system effectiveness.

GAO believes this is an important area that warrants attention and supports the first recommendation. In a previous report (GAO/MASAD-83-16), GAO pointed out that the government was not ready to accurately accumulate governmentwide TP cost data because of some unresolved inconsistencies.

GAO supports the intent of the second recommendation. However, GAO believes it may be ineffective to require GSA to document the pertinent characteristics of federally operated data networks unless the inaccuracies, inconsistencies, and lack of common data elements in the existing GSA Communication Management Information System are resolved.

GAO agrees in principle with the third recommendation that specific agencies should document ADP systems employing significant, TP resources/costs and that this information should be used to identify opportunities for cost sharing or system improvements. In a previous report (GAO/LCD-80-53), GAO pointed out that the Department of Defense (DOD) and several civil agencies had developed consolidated telecommunications systems that replaced numerous individual circuits and resulted in significant cost savings. It reported obstacles, however, to further exploitation of consolidated telecommunications. For example, GAO found that maximum benefits can be achieved only on a governmentwide basis; however, no specific policy exists for coordinating DOD and civil telecommunications efforts or for using spare capacity on existing systems. Furthermore, no organization exists to manage the civil agency problem, but DOD has established one for itself. In its report, GAO recommended that a single entity be assigned responsibility for developing and managing consolidated telecommunications systems for the entire government.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO believes the first PPSSCC recommendation cannot be implemented as stated until the Office of Management and Budget (OMB) ensures that a common cost basis is established for federal tracking and comparison of telecommunications costs. It believes the second recommendation is feasible for implementation to the extent that GSA receives a formal federal charter. Also, GAO believes the third recommendation is feasible and OMB currently has the authority to carry it out. Existing executive branch authority is also adequate to carry out the first two recommendations.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO believes the PPSSCC estimate of 3-year savings potential is not supported primarily because of the unavailability of cost data. The recommendation does not appear to include information from a previous GAO report (GAO/MASAD-83-16) that cautioned complete cost data for all types of services and equipment were unavailable.

V. RELEVANT GAO REPORTS

GAO/MASAD-83-16	Financial Information Lacking on Government Telecommunications Services and Equipment (Feb. 25, 1983)
GAO/LCD-80-53	Reduced Commissions Costs Through Centralized Management of Multiplex Systems (May 14, 1980)

VI. GAO CONTACT

William Franklin 275-3188

ADP 6: OFFICE AUTOMATION

I. PPSSCC ISSUE AND SAVINGS

"Can improved planning for and management of office automation (OA), coupled with increased professional use of OA, produce cost savings and/or productivity improvements in the Federal Government?"

The PPSSCC estimated the cost savings from increased professional and clerical use of OA to be $6.5 billion over a 3-year period.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO agrees with the PPSSCC that OA has the potential to improve the productivity of federal managers, professionals, and clerical workers. Federal agencies plan to spend several hundred million dollars on this technology in the next few years. However, GAO has found in its previous audit work that the lack of strong central management and effective guidance has resulted in the development of OA systems that duplicate existing systems, are not compatible with other systems, and are not cost-effective. GAO believes that, to reap the potential benefits without wasting resources, agencies should establish strong central management of OA with better guidance from the General Services Administration (GSA).

The PPSSCC recommended that:

(1) With necessary authorization, the Office of Management and Budget (OMB), in concert with the Federal Information Resources Manager (FIRM), require each government department and agency to submit and update annually a status report and plan for OA, indicating to the work unit level the steps and timing of systems implementation and the number and identity of positions to be reduced.

(2) OMB and GSA, at the direction of the FIRM, provide plainly worded guidance for departments and agencies, stressing the necessity for strong management of OA, including planning long-range strategies, obtaining middle-management support, and avoiding uncoordinated procurement.

(3) OA expenditures be viewed and justified in terms of their cost benefits.

(4) Agency Information Resource Managers review current equipment inventories and planned

acquisitions of OA resources to identify opportunities for using equipment to its fullest.

(5) At a governmentwide level, GSA provide a technical support center to foster the productive acquisition of OA technology within and among agencies.

(6) Systematic efforts to document and quantify both professional and clerical usage of OA tools be undertaken.

(7) GAO publish a schedule of reviews of OA in every federal government agency beginning 1 year from the acceptance of this report and deliver a copy of the schedule, this report, and the GAO study, "Strong Central Management of Office Automation Will Boost Productivity," to the director of each agency.

Generally, the PPSSCC recommendations for OA point agencies in the right direction, with one exception. Recommendation #7 requires GAO to review OA in every federal government agency. GAO believes that such reviews are the primary responsibility of agency management and internal review.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that legislative action is not required to implement the first six recommendations, however, Congress will need to appropriate additional sums of money to achieve full implementation. If the intent of the last recommendation is to require that GAO review OA activities at every government agency, then legislative action would be needed. Legislative action would not be required if the intent is to have GAO publish a schedule of its reviews of OA.

GAO believes that the recommendations incorporated in this issue, with the exception noted above, are feasible. There is potential for surfacing many implementation and management problems. As a result of previous audit work in the OA area, GAO has found that, to avoid such problems, certain necessary conditions must be met. These conditions include, but are not limited to, the following:

--Active support by OMB, as well as by operating agencies, would be required to meet the PPSSCC productivity goals. Up to now, however, OMB has argued that productivity analysis constitutes but one of many tools for managing agency programs, and it believes the ongoing management efforts provide sufficient direction.

--Appropriation action by the Congress would be needed, as previously indicated, to provide the necessary staff to OMB, the Office of Personnel Management, GSA, and other agencies and possibly to fund accelerated investments in equipment.

--GSA would have to provide the much needed technical support center for acquisition of OA technology. Also, in concert with OMB, it must provide guidance to departments and agencies in their development of planning for and management of office automation.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO is unable to substantiate the PPSSCC cost savings. Nevertheless, GAO believes that the PPSSCC estimate is based on assumptions that are not necessarily appropriate. Specifically, GAO questions whether (1) agencies can successfully implement OA systems for their professional staff within 3 to 5 years, (2) savings estimates of 10 percent from a few companies can be applied across the board to a diverse work force of over 2 million, and (3) efficiency savings from OA systems will be translated into reductions in personnel.

Some companies have successfully implemented limited OA systems for their professional personnel. However, GAO has identified a significant number of OA failures in the private sector. Assuming that there will be failures in the federal government as well, the cost of such failures needs to be taken into consideration when estimating net savings.

The PPSSCC estimated clerical cost savings of 12 percent over 3 to 5 years seems more realistic than the estimate of professional cost savings in the same time frame.[1] Given strong management oversight, it may be possible to translate improved efficiency into personnel savings.

GAO also believes that the PPSSCC cost estimate of about $4,000 per person for OA equipment, based on four sources, does not adequately reflect the costs of personnel required to manage, maintain, and evaluate OA systems and to train staff in the use of these systems. The additional personnel costs should significantly increase their equipment-oriented estimate.

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[1]Clerical applications are primarily aimed at the typing function, word processing applications, and other clerical usages, including transferring information between business locations and responding to phone calls. Professional applications allow a person to collect and analyze data; send and receive data accumulated; process statistical data; and perform word processing functions, including editing and retyping reports.

V. RELEVANT GAO REPORTS

GAO/AFMD-82-54	Strong Central Management of Office Automation Will Boost Productivity (Sept. 21, 1982)
GAO/FGMSD-80-63	The Senate Should Explore Other Word Processing Alternatives to Improve Cost Effectiveness and Productivity (July 17, 1983)
GAO/FGMSD-79-17	Federal Productivity Suffers Because Word Processing Is Not Well Managed (Apr. 6, 1979)

VI. GAO CONTACT

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ADP 9 AND COMM 2: CENSUS SYSTEMS ACQUISITION

I. PPSSCC ISSUE AND SAVINGS

"Can significant cost savings/avoidance be achieved by adopting an alternate approach to the Census Bureau's information technology needs, instead of the currently proposed plan which was prompted by the Office of Management and Budget process for 'Major System' procurement (A-109)?"

According to PPSSCC, if an alternate approach is used, $14.8 million could be saved.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC recommended that:

(1) The A-109 policy not be used for procurement of the census system.

(2) The Census Bureau discontinue the A-109 procurement process it was employing at the time of the PPSSCC review.

(3) The Census Bureau segment its technology needs into manageable projects.

(4) The Census Bureau apply cost/benefit analysis to ADP projects.

GAO agrees with the first two recommendations because it believes the Census Bureau cannot complete the A-109 process in time for the 1990 Decennial Census. The Bureau endeavored to implement the acquisition of a fully integrated automated data processing and telecommunications system, which would meet its mission needs through the mid-1990s by using the A-109 process. However, by late 1982, the Bureau had fallen about 2 years behind schedule and was concerned that the system could not be fully operational in time to meet the needs of the 1990 Decennial Census. Therefore, GAO agrees with the PPSSCC that alternative approaches should be considered. The A-109 process is multiphased, incorporating four distinct agency head approval points. The first phase involves preparation of a "Mission Needs Statement." The second phase involves exploration of alternative systems, the appointment of a manager, and the development of an acquisition strategy. Multiple-systems architects are asked to design a system to fulfill functional requirements specified by the agency. In phase three, two or more architects are funded to prototype/demonstrate their design concepts. Finally, in phase four, one design is selected for full-scale development and eventual release to production.

GAO generally agrees with the other recommendations. Segmenting the Bureau's technology requirements into manageable projects seems to be a prudent approach, considering the extensiveness and the complexity of the Bureau's technology requirements. However, the projects should be coordinated and technology should be integrated, where possible. Cost/benefit analysis is a prudent management principle.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that the Census Bureau has the authority to implement the recommendations associated with this issue. In fact, in response to the PPSSCC's suggestions, the Bureau discontinued use of the A-109 approach to ADP acquisitions. And, according to planning documents, the Bureau plans to apply cost/benefit analysis to ADP projects. To some extent, the Bureau appears to have segmented its technology needs into smaller projects, as opposed to the single A-109 project previously in place. GAO is aware of separate projects covering data entry, geographic support, field office automation, and mainframe requirements.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

Because GAO has not analyzed the PPSSCC's savings estimate, it cannot comment on the validity of the estimate.

V. RELEVANT GAO REPORTS

GAO/GGD-83-10	The Census Bureau Needs to Plan Now for a More Automated 1990 Decennial Census (Jan. 11, 1983)

VI. GAO CONTACT

Thomas Giammo 275-4659

ADP 10 AND ARMY 15: IMPROVED ADP MANAGEMENT AND PLANNING - DEPARTMENT OF THE ARMY

I. PPSSCC ISSUE AND SAVINGS

Does the existing organizational structure of the Army's automated data processing (ADP) function help to maximize ADP's potential productivity savings, and can improvements be made to automated data processing/office automation (ADP/OA) to reduce costs?

The PPSSCC estimated that, when its recommendations are fully implemented, net savings of $250 million in the first year and $827.5 million over 3 years are possible.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO believes these issues could have merit as a first step toward effective information resources management (IRM). But, Army implementation should take place only after all 15 recommendations and related subrecommendations are carefully analyzed. The PPSSCC's more prominent recommendations and subrecommendations are:

(1) The Chief of Staff of the Army should begin an immediate review of the ramifications of limited career paths within ADP and the long-term implications of noncompetitive salaries.

(2) The Chief of Staff of the Army should direct the Corps of Engineers to utilize the Project VIABLE system--an Army base-level computer replacement project--for its business functions.

(3) The Chief of Staff of the Army should order the formation of an Automation Command, with major command status.

(4) The commander of the new Automation Command should streamline and clarify the current ADP regulations, particularly with respect to procurement.

(5) Project VIABLE procedures should be advertised throughout the government as one means of procuring high technology ADP support.

GAO agrees with the PPSSCC that ADP career paths and incentive awards need reviewing and that current Army ADP regulations, particularly with respect to ADP procurement, need to be streamlined and clarified. GAO also agrees with the PPSSCC that more Army attention needs to be focused on ADP management. However, GAO questions the need for forming an Automation Command with Army-wide ADP responsibilities

when an accountable official with such responsibilities already exists. The Army, like every federal agency, can benefit from an advocate who is accountable for promoting and exploiting ADP technology capabilities. But, such an advocate should be the agency's information resources manager, consistent with the Paperwork Reduction Act of 1980 (Public Law 96-511). Without further clarifications, the Automation Command could easily duplicate as well as confuse and dilute the role of the information resources manager.

GAO also questions the PPSSCC's recommendation that the Army (1) force the Corps of Engineers to adopt the Army's Project VIABLE for business functions and (2) advertise VIABLE's procurement procedures as one means of procuring high technology ADP support. GAO believes that forcing any agency to adopt a specific solution, without carefully analyzing all alternatives is not a valid decision. Finally, the fifth PPSSCC recommendation listed above is already required by Office of Management and Budget Circular A-109. When procuring major high technology systems, all agencies must consider having competition for operational concepts, designs, and prototypes as one alternative for meeting agency needs.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees that needed actions can be implemented with the Army's executive-level authority. GAO believes the Army can better manage its ADP resources, and the PPSSCC has identified several actions that warrant consideration and careful Army study. GAO has limited knowledge of the Army's progress in responding to the PPSSCC recommendations because it has not received the Army's report on actions planned or already completed. However, GAO has been told the Army Automation Command has been formed, but many Army automated logistics systems may not be controlled by it.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO can not formulate any opinion on the validity of the identified savings for this issue. The assumptions and approaches the PPSSCC used in computing the savings estimates were not revealed, and an association of specific actions to expected benefits also was not available in the PPSSCC report.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

William Franklin 275-3188

ADP 11 AND TRANS 5: CONSOLIDATION OF ADP OPERATIONS - DEPARTMENT OF TRANSPORTATION

I. PPSSCC ISSUE AND SAVINGS

Is the Department of Transportation's (DOT's) automated data processing (ADP) function executed efficiently, effectively, and economically? The PPSSCC estimated that centralizing and improving coordination would result in a 3-year savings of $46.4 million.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC recommended that the DOT:

(1) Consolidate the ADP functions of the Federal Railroad Administration (FRA), National Highway Traffic Safety Administration (NHTSA), Urban Mass Transportation Administration (UMTA), Maritime Administration (MARAD), Research and Special Programs Administration (RSPA), and Transportation Computer Center within the Office of the Secretary by fiscal year 1984.

(2) Establish structured procedures for all ADP development.

(3) Make all possible use of DOT's own timesharing service at the Transportation Computer Center.

DOT agreed that the PPSSCC's recommendations had merit and, in April 1984, it wrote a letter to the Chairman of the House Appropriations Committee outlining actions it had under way on each PPSSCC recommendation. GAO believes that the issue and its associated recommendations have merit.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that legislative action is not required to implement this proposal. In its April 9, 1984, response to the Chairman of the House Appropriations Committee, DOT said it had (1) consolidated the Transportation Computer Center and the Office of Information Systems and Telecommunications Policy within the Office of the Secretary; (2) completed a review of ADP functions in FRA, NHTSA, RSPA, UMTA, and MARAD to determine the best approach for consolidation; and (3) appointed a program manager to be responsible for initiating and implementing uniform procedures for all ADP system development throughout DOT.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO has no basis for assessing the reasonableness of the PPSSCC's savings estimate. However, savings estimates prepared by DOT cast doubt on the reasonableness of the PPSSCC's estimates. According to a DOT work group report, a more accurate cost savings estimate is $9.1 million.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

Walter Anderson 275-9675

ADP 12 AND USAF 13: IMPROVED AUTOMATED INFORMATION SYSTEMS - DEPARTMENT OF THE AIR FORCE

I. PPSSCC ISSUE AND SAVINGS

Are the Air Force Logistics Command's (AFLC's) automated data processing (ADP) systems up-to-date, properly managed, and cost-effective?

The PPSSCC expected that effective ADP management and office automation would result in substantial cost savings in the areas of inventory management and control, maintenance, and personnel reductions. The PPSSCC estimated its recommended improvements would generate annual savings of \$176.6 million--\$579.8 million over 3 years--and one-time savings of another \$80 million to \$150 million.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO believes these PPSSCC issues have merit. The AFLC's automated systems need modernization. GAO testified to this effect before the Senate Armed Services Committee on October 26, 1983. GAO agrees with PPSSCC statements that AFLC should (1) have measurable objectives for its ADP systems, stated and accounted for in terms of functional, financial, and timespan impacts; (2) emphasize functional effectiveness and de-emphasize technical considerations; (3) make ADP system users responsible for computer-based design, cost, and mission effectiveness; and (4) pursue and expedite completion of system improvements already started.

GAO has reported that benefits should result when agency managers have clearly defined objectives for managing ADP procurements and system development projects. Further, GAO, the Office of Management and Budget, and the General Services Administration believe functional effectiveness should be emphasized in ADP requirement definitions, cost justifications, and expected mission benefit descriptions. Also, in the Paperwork Reduction Act of 1980 (Public Law 96-511), the Congress stated that mission effectiveness must be considered along with economic and technical efficiencies when automated alternatives are being evaluated. However, GAO does not fully agree with the PPSSCC on AFLC's need to respond quickly to stated recommendations. Before it takes action, AFLC must first ensure that such efforts will produce critical yet cost-effective mission support.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees that the PPSSCC recommendations are practical and can be implemented with existing executive-level

authority. GAO believes the essence of the PPSSCC recommendations have governmentwide application, but central agency procedures and criteria guidance would have to be developed.

GAO has not received the Air Force's report on its actions to implement the PPSSCC recommendations. Therefore, GAO cannot comment on the Air Force's overall actions and progress.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO can not formulate a position on the validity of the PPSSCC identified savings. The PPSSCC savings/estimates, assumptions, and/or approaches are not discussed in sufficient detail. Therefore, GAO cannot link recommended actions to savings. Moreover, $450 million of the $579.8 million 3-year savings total relates to the base-level modernization program (Phase IV), which is not AFLC-controlled. Also, an AFLC updated economic analysis for its stock control and distribution project (dated Oct. 12, 1984) states that one-time savings of $14.2 million could be realized from the reduced processing time associated with supply transactions. However, the PPSSCC's estimate of the savings to be realized from the reduced processing time was between $80 million and $150 million.

V. RELEVANT GAO REPORTS

GAO/AFMD-81-20	Government-wide Guidelines and Management Assistance Center Needed to Improve ADP Systems Development (Feb. 20, 1981)
GAO/FGMSD-80-15	The Air Force Should Cancel Plans to Acquire Two Computer Systems at Most Bases (Oct. 26, 1979)
GAO/AFMD-83-58	Status of the "Phase IV" Base Level Computer Replacement Program (Mar. 16, 1983)
GAO/IMTEC-84-7	Air Force Progress in Implementing the Phase IV Base Level Computer Replacement Program (Jan. 18, 1984)

VI. GAO CONTACT

William Franklin 275-3188

ADP 13 AND EPA 11: AUTOMATED DATA PROCESSING

I. PPSSCC ISSUE AND SAVINGS

Should the Environmental Protection Agency (EPA) approve and implement the recommendations outlined in the Recommended Approach for Consolidated Management of the Agency's ADP Resources? (Final report of the Automated Data Processing (ADP) Consolidation Task Force, Feb. 1982) The PPSSCC estimated the 3-year savings to be $22.2 million.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC recommended that EPA immediately implement the recommendations published in EPA's ADP task force report, develop system manuals, and initiate a comprehensive computer processing capacity study. GAO agrees with each recommendation and with the PPSSCC position that EPA should consolidate and centralize its management and planning of ADP resources--hardware, software, and telecommunications. This proposal is supported by recommendations made in previous GAO reports. GAO believes that EPA should reorganize to address agencywide issues in lieu of a decentralized organizational structure that would likely have parochial views of user needs and services.

Further, on the basis of generally accepted ADP policies, procedures, and guidelines, GAO believes that EPA needs to more effectively plan for all ADP services, including the establishment of a continual planning process consistent with agency mission and program objectives. In addition, GAO believes that EPA needs to eliminate redundant system development activities and better manage contractors who develop EPA's ADP systems. These actions should result in more cost-effective ADP operations.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

EPA has the authority to implement the PPSSCC recommendations. GAO believes the recommendations are feasible and should be implemented. EPA has not acted on GAO's or PPSSCC's recommendations.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO has no basis for assessing the 3-year savings estimate of $22.2 million. However, GAO believes that more effective planning for ADP resources, coupled with a consolidation of ADP operations and system development activities, should result in significant savings.

V. RELEVANT GAO REPORTS

GAO/CED-80-18 Stronger Management of EPA's Information Resources Is Critical to Meeting Program Needs (Mar. 10, 1980)

VI. GAO CONTACT

Walter Anderson 275-9675

ADP 14 AND HEALTH 6: HCFA EDP INDEPENDENCE FROM SSA

I. PPSSCC ISSUE AND SAVINGS

"Is it possible to provide the Health Care Financing Administration (HCFA) with Electronic Data Processing (EDP) independence from the Social Security Administration (SSA) at a minimum cost and increase efficiency and management accountability?"

A minimum annual net savings of $73 million, with an additional estimated savings of $25 million, can be obtained after the full implementation of a proposed state-of-the art HCFA EDP system. (The PPSSCC estimated that savings would be $324 million during the first 3 years.)

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO believes this issue has merit and generally agrees with the three PPSSCC recommendations. The PPSSCC recommended that HCFA:

(1) Consolidate data processing into a new HCFA bureau, under a career professional manager who would report directly to the Administrator. Although it has not made a similar formal recommendation, GAO agrees with the general thrust of this recommendation.

(2) Charge the HCFA Office of Information Planning and Development with creating a long-range strategic plan for using EDP as a management tool. GAO has generally endorsed the planning concepts embodied in this recommendation.

(3) Authorize a pilot test of the system to provide a direct telecommunications linkage between providers and HCFA (SPIDER). GAO believes, based on its review of the PPSSCC's description of the SPIDER proposal, that the system offers substantial operational improvements and potential savings.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO believes that each of the three PPSSCC recommendations can be implemented with existing executive branch authority. GAO found no legal impediment to administrative implementation of the PPSSCC's recommendation to consolidate HCFA's data processing functions into a new bureau. The PPSSCC believes that such a consolidation may require congressional action. GAO believes that implementation of each of the PPSSCC's recommendations is feasible.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC recommended that HCFA authorize a pilot test of the SPIDER system to provide a direct telecommunications link between health providers and HCFA. The savings estimate ($324 million) is difficult to assess because the PPSSCC provided little information on how the savings were calculated. GAO believes, however, that the PPSSCC estimate of costs and benefits could be misinterpreted, since the estimate reflects the combined costs and benefits of two separate recommendations (HCFA EDP independence and the SPIDER project). GAO believes that 3-year investment costs cited by the PPSSCC for the implementation period may be understated because (1) software costs in relation to hardware costs appear too low and (2) no training costs are included.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

Thomas Giammo 275-4659

AG 2: MANAGEMENT INFORMATION

I. PPSSCC ISSUE AND SAVINGS

The PPSSCC said that

"Farmers Home Administration (FmHA) management information systems [which provide management information in the areas of program support and administration] should be improved to allow more effective management of the Agency and its loan portfolio, to reduce costs at the national office, and to reduce the work load of field personnel. Estimated savings from improved management information are difficult to quantify, but are in the order of $178 million in cash accelerations in recovered delinquent principal and interest and $17.8 million in reduced interest cost to the U.S. Treasury. In addition, savings from the recommended reorganization [consolidation of two divisions that receive data from the field offices] are approximately $673,000 per year. Cost savings total $61.1 million over three years."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The major sources of FmHA management information are the Finance Office in St. Louis, Missouri, and direct contact with local field personnel. About 2,300 state, district, and county offices report monthly, quarterly, and semiannual data to FmHA's Management Information Systems Development Division (MISDD) and Resources Management Systems Division (RMS). The PPSSCC believes that, in general, the management information generated by FmHA's Finance Office, RMS, and MISDD is inadequate for the effective management of FmHA's loan portfolio and the agency. For example, the PPSSCC believes that a great deal of potential cost savings exists for borrowers to graduate out of FmHA-assisted credit. However, one of the problems facing FmHA is a lack of adequate information to identify such eligible borrowers. The PPSSCC states that generating such information through the ranking or aging of FmHA's loan portfolio would alleviate this problem and increase loan graduations.

In two reports in 1978 and 1980 (see section V), GAO pointed out the need for FmHA to improve its management information system and recommended corrective actions. GAO also testified in July 1980 before the Subcommittee on Legislation and National Security of the House Committee on Government Operations on improvements needed in FmHA's computer-based unified management information system. FmHA has stated that the PPSSCC proposal is acceptable and that work on implementing these improvements is underway.

GAO's reviews have not included evaluations that considered the specific PPSSCC recommendations within the issue. But GAO generally supports actions of the types proposed; that is, improving the control and maintenance of management information reports, making forms and reports as useful as possible, obtaining user feedback to ensure reports are needed, focusing attention on delinquent loans and on opportunities for loan graduations, and eliminating unnecessary organizational duplication.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO believes that the recommendations can be implemented through the FmHA Administrator's existing authority. FmHA recognizes the weaknesses in its management information systems and has improvement efforts underway. Principally, the design of a new program accounting system is being completed and the system is expected to be operational during fiscal year 1986. FmHA's method of implementing other recommendations in this issue is a series of automatic data processing (ADP) development projects which will be phased in over the next few years.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

Because the PPSSCC's savings estimate of $61.1 million is, by its own admission, extremely hypothetical, GAO did not further analyze the estimate to determine its reasonableness. According to FmHA, it believes that the mere availability of more current information is highly unlikely to lead to savings of the magnitude proposed. In addition, FmHA states that a substantial one-time cost will be incurred in fiscal year 1985 to purchase automated equipment and software in order to put the management information improvements in place. According to the U.S. Department of Agriculture's implementation status report dated October 3, 1984, no savings will be realized until new equipment is operational.

V. RELEVANT GAO REPORTS

Testimony	Farmers Home Administration's Computer-Based Unified Management Information System, by Henry Eschwege, Director, Community and Economic Development Division, before the Subcommittee on Legislation and National Security, House Committee on Government Operations (July 24, 1980)
GAO/CED-80-67	Farmers Home Administration's ADP Development Project--Current Status and Unresolved Problems (Feb. 19, 1980)

GAO/CED-78-68	FmHA Needs to Better Plan, Direct, Develop, and Control Its Computer-Based Unified Management Information System (Feb. 27, 1978)

VI. GAO CONTACT

Brian Crowley	275-5138

AG 36: ASCS - COUNTY OFFICE AUTOMATION STUDY

I. PPSSCC ISSUE AND SAVINGS

"The current Department of Agriculture (USDA) implementation schedule for the automation of county offices should be accelerated by two years. Actual full savings would accrue after 1985, rather than after 1987 as in the USDA plan. The present value of only the acceleration of future savings would be $2.7 million."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

USDA's Agricultural Stabilization and Conservation Service (ASCS) proposed that its county offices throughout the United States be automated. The office automation (OA) decision was made on the basis of pilot tests conducted at various ASCS county offices. Aware of ASCS' proposed OA, the PPSSCC saw an opportunity for greater savings by accelerating ASCS' implementation schedule.

The PPSSCC recommended that the Chief of ASCS:

(1) Direct the appropriate ASCS personnel responsible for the county OA effort to complete a comprehensive, detailed implementation plan for all remaining work required to complete the automation effort.

(2) Require the development of a more aggressive implementation schedule for the completion of the project. This schedule should provide for the completion of the project by the end of calendar year 1985.

(3) Arrange for the procurement of an automated project management software product which incorporates a critical path scheduling method to assist in the management of the project.

ASCS conducted two OA pilot tests. The first was conducted at the ASCS county office in Crawford County, Kansas, from May 1980 to March 1982. The second test was conducted in seven county offices in different states and different crop-growing regions. In April 1983, ASCS began a cost/benefit analysis to establish the economic feasibility of automating ASCS field offices. This analysis was completed in September 1983.

GAO does not believe this issue or the principal recommendation to accelerate the OA implementation has merit. However, the two supporting recommendations (numbers 1 and 3) have merit and should be implemented at the appropriate

time. The recommendation by PPSSCC for accelerating the ASCS schedule for automation of county offices by 2 years was based, in part, on ASCS' reports on the first pilot test and the planning documents for the second pilot test. In a recent report (GAO/IMTEC-84-11, May 25, 1984), GAO reviewed the cost/benefit analysis of the nationwide automation of county offices and concluded that this analysis may be flawed. It found that most of ASCS' estimated benefits (82 percent) were based on projections of staff time saved and improved accuracy. However, time saved, which accounts for over half the benefits, was based on county employees' estimates based on individual jugdment, and ASCS included no plans to reduce staff as a consequence of time saved. Further, the accuracy improvements were not substantiated by evidence, and other benefits were overstated. Estimated costs for equipment and maintenance, which were the largest cost categories identified, appear to have been understated. Also, ASCS plans to use technology that was not pilot tested, which increases the risk of unforeseen expenses.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that USDA has the authority to implement the recommendations without further legislative action.

Because of the substantial uncertainty in its estimates, ASCS' cost/benefit analysis was defective. GAO recognizes that predictions are difficult to substantiate, but it believes that better information is needed before ASCS commits its full resources to OA at the county offices. The fact that ASCS has not tested the software that is intended for implementation further increases risk.

GAO recommended that the ASCS proceed with the prototype project in three states and defer the planned nationwide automation of state and county offices until the prototype had provided better cost/benefit information and had tested the technology. ASCS later agreed with the House Appropriations Committee to implement such a prototype program. GAO believes ASCS should proceed with this plan before committing itself to a nationwide procurement. According to the USDA, the status of implementation of this issue was "on hold" as of September 30, 1984.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The projected PPSSCC savings are based on ASCS cost savings estimates. As stated earlier, GAO found the ASCS cost/benefit analysis flawed and, therefore, does not believe the PPSSCC savings are realistic.

V. RELEVANT GAO REPORTS

GAO/IMTEC-84-11 ASCS Needs Better Information to Adequately Assess Proposed County and State Office Automation (May 25, 1984)

VI. GAO CONTACT

Thomas Giammo 275-4659

AG 48: IMPROVE DATA PROCESSING PLANNING PROCESS

I. PPSSCC ISSUE AND SAVINGS

According to the PPSSCC, "the Forest Service should improve planning for a $75 million distributed data processing system." Once implemented, this system will gather and maintain information using about 1,450 computers. The PPSSCC estimated a 3-year savings of $43 million.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC recommended that the Forest Service improve its planning activities and the organizational structure needed to effectively support distributed data processing. On the basis of recent audit efforts at the Forest Service, GAO agrees the Forest Service should improve its planning process. The Forest Service's planning should be a continual process, updated periodically to reflect changing needs and conditions. Further, the plan should address the following elements: organizational involvement, direction, structure, control, and reporting. GAO also believes that planning should have been completed before the minicomputers were installed in late 1983.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The Forest Service has the authority to implement the recommendations to improve its planning activities. This action is feasible and should result in a planning process that provides the basis for continuing with the installation of over 1,000 Data General minicomputers at the Forest Service's field offices. Although the Forest Service has attempted to strengthen its planning activities, a recent GAO survey determined that more needs to be done.

On the basis of GAO work, the Committee of Conference on Agriculture's fiscal year 1985 appropriations directed that the Forest Service implement its management and technical recommendations to improve its nationwide use of minicomputers.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC provided no solid support to validate its savings estimate. The PPSSCC's estimated cost avoidance savings should be supported by a comprehensive analysis of the time agency personnel spend gathering, maintaining, processing, and/or analyzing information. GAO found no

evidence that such an analysis was conducted. The PPSSCC estimated a reduction of 5 to 10 percent in the amount of information to be handled. GAO found no evidence that a comprehensive analysis of the present and future workload was completed to justify this estimated 5 to 10 percent reduction.

Without the benefit of cost and workload analyses, GAO is not in a position to agree or disagree with the PPSSCC's 3-year savings estimate of $43 million.

V. RELEVANT GAO REPORTS

GAO/CED-81-116	Department of Agriculture Needs Leadership in Managing its Information Resources (June 19, 1981)
GAO/CED-81-15	Forest Service's Region 5 Should Consider Less Costly Ways to Meet Word and Data Processing Needs (Oct. 23, 1980)

VI. GAO CONTACT

Walter Anderson 275-9675

BUS-CPSC 3: AUTOMATED DATA PROCESSING

I. PPSSCC ISSUE AND SAVINGS

Can data processing costs at the Consumer Product Safety Commission (CPSC) be reduced by moving from a time-sharing service to an in-house facility? The PPSSCC estimated a total net savings over the 3-year period to be $0.9 million.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

On the basis of generally accepted automated data processing (ADP) policies, procedures, and guidelines, GAO generally agrees with the overall merits of the issue raised by the PPSSCC, but it does not believe the PPSSCC is in a position to determine the most cost-effective alternative. GAO believes CPSC should analyze user requirements, alternative approaches, and cost benefits to justify the most cost-effective approach. In addition, GAO agrees with the recommendation that calls for the establishment of a management advisory ADP committee (a "users" committee). GAO also agrees with the recommendations that CPSC prepare a long-range ADP plan. These actions and plans should help improve data processing service at a lower cost to the government.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

CPSC has the authority to implement the PPSSCC recommendations. Further, these actions proposed by the PPSSCC are feasible and should be started at the earliest possible date. GAO does not have a status report on the CPSC's response to these recommendations.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO is not in a position to substantiate potential savings of $0.9 million over the 3-year period. To support such savings requires analysis of additional factors not identified by the PPSSCC, such as facilities modifications, maintenance, space, depreciation, conversion of software, etc.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

Walter Anderson 275-9675

BUS-FCC 2: AUTOMATED DATA PROCESSING

I. PPSSCC ISSUE AND SAVINGS

Should the Federal Communications Commission (FCC) evaluate the cost-effectiveness of its recent move from a centralized to a decentralized data processing environment? The PPSSCC reported that savings would result from the increased use of data processing resources. However, the PPSSCC did not quantify the savings in its report.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC recommended that FCC postpone its network program, which will link all of its decentralized facilities, until an analysis of functional requirements is completed.

On the basis of generally accepted automated data processing (ADP) policies, procedures, and guidelines, GAO agrees with the PPSSCC position that FCC evaluate the cost-effectiveness of its ADP operations before proceeding with its network program. All user requirements should be validated and then analyzed to determine the information that needs to be shared or transferred. On the basis of this determination, FCC should then evaluate the requirement for linking microcomputers to central computers. Evaluating the data processing requirements at the decentralized microcomputer level and the centralized computer level should be viewed from total agency functional requirements. It should not merely be an analysis of the linking of microcomputers to central computers without proper justification.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

FCC has the authority to implement the PPSSCC recommendation. Further, GAO believes that FCC should begin its evaluation as soon as practicable to provide cost-effective data processing services for its users. GAO does not have a status report on the FCC's response to this recommendation.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO agrees that savings cannot be easily quantified. However, more effective ADP operations should reduce data processing costs.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

Walter Anderson 275-9675

COMM 6: MODIFICATION OF PATENT AND TRADEMARK AUTOMATION PLAN

I. PPSSCC ISSUE AND SAVINGS

Can the Patent and Trademark Office (PTO) effectively automate its operations without installing all of the 3,600 workstations called for in its long-term automation plan?

The PPSSCC's work suggests that the PTO can effectively automate its operations with fewer workstations than called for in the current plan and can save approximately $3 million over the first 3 years and up to $89 million over an 8-year period.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

On the basis of its preliminary work now being performed at PTO, GAO agrees that PTO may be able to effectively automate its operations without installing all of the 3,600 workstations, including one dedicated workstation for each patent examiner. GAO also agrees that PTO should carefully assess workstation needs in a pilot test environment before acquisition. According to PTO's Administrator for Automation, the initial workstation requirements were based on educated assumptions about patent examiner work activity, not on actual observations. GAO believes that actual workstation pilot test observations would provide a more accurate assessment of PTO's user requirements.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

PTO has authority to implement the PPSSCC's recommendation for pilot testing before acquiring all workstations. This pilot test is feasible and could be done after some workstations are installed. According to PTO's Administrator for Automation, in early 1984, PTO analyzed the potential waiting time an examiner may experience with shared workstations. While PTO has not made a final decision in this area, the PTO official stated that the assessment indicated that five workstations for every six examiners may not be adequate because the cost of examiner waiting time may be greater than the cost of the additional workstation. PTO's refined analysis indicates that the PPSSCC's assessment of PTO's requirement for 3,600 workstations may not be valid. Nevertheless, PTO plans to validate its requirements for all 3,600 workstations before acquiring them.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC's cost savings estimates are based on generalizations about PTO patent examiner work flow and practices. As such, the estimated savings extrapolated from

these generalizations are without analytical basis. Nevertheless, the idea of pilot testing examiner workstation needs remains plausible, and GAO believes a refined PTO analysis of examiner workstation needs is warranted.

V. RELEVANT GAO REPORTS

GAO/FGMSD-80-40 Feasibility of Automating the Search Process at the Patent and Trademark Office (May 9, 1980)

VI. GAO CONTACT

Thomas Giammo 275-4659

ED 2: MANAGEMENT INFORMATION SYSTEMS AND INTERNAL CONTROLS

I. PPSSCC ISSUE AND SAVINGS

Can the financial exposure of the Department of Education to waste, fraud, abuse, and error be reduced by the elimination of major weaknesses and deficiencies in management information systems and internal controls?

An estimated $763.5 million can be saved over a 3-year period.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

PPSSCC concluded that overall improvements in the department's financial management systems are needed. To achieve this, PPSSCC specifically recommended that the department:

- --conduct an in-depth review of existing management information systems and internal controls,
- --revise the general account structure,
- --assess the areas where exposure to waste, fraud, abuse, and error is greatest,
- --assign clear responsibility for controls and hold those involved accountable, and
- --increase audit coverage and implement audit recommendations in a timely manner.

GAO has previously reported problems with the information systems--both management and financial--at the department. In September 1981, GAO reported on two occasions internal control weaknesses in the National Direct Student Loan Programs and the need for a better Guaranteed Student Loan Information System.

Further, during our review of the department's first-year implementation of the Federal Managers' Financial Integrity Act, GAO concluded that improvements are needed in the accounting systems to control and account for funds effectively and efficiently. The department also stated in its final certification letter to the President and the Congress that their financial management and accounting systems have weaknesses. For example, the accounting system control in the Accounts Receivable System and the Department of Education Payment System (EMPMTS) do not provide reasonable assurance that the systems classify, summarize, and report receivables and payments in a timely and accurate manner.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC recommendations can generally be implemented through action by the department. Only the recommendation proposing increased audit coverage requires congressional action. The Congress would have to authorize additional hiring authority for the department to increase its Inspector General staff. GAO believes that the recommendations set forth by PPSSCC are viable and should be implemented. Successful implementation of these recommendations should help improve financial management in the department.

The Federal Managers' Financial Integrity Act (FMFIA) of 1982 established a governmentwide framework for improving and monitoring the effectiveness of program financial management in federal agencies. This act amends the Budget and Accounting Act of 1950, and requires each federal agency to establish systems of internal accounting and administrative controls that can provide reasonable assurance that (1) obligations and costs comply with applicable law; (2) funds, property, and other assets are safeguarded from waste, loss, unauthorized use, or thefts; and (3) revenues and expenditures are properly recorded, accounted for, and reported. Further the act requires each agency to assess its accounting systems for compliance with accounting principles and standards prescribed by the Comptroller General.

The Department of Education made an evaluation of its system of internal accounting and administrative control in conjunction with the requirements of the act. The evaluation was conducted in accordance with the guidelines for the evaluation and improvement of and reporting on internal control systems in the federal government. This evaluation also considered whether the system of internal accounting and administrative control was in compliance with the accounting principles and standards prescribed by the Comptroller General.

GAO believes that the department's efforts for evaluating and reporting on its internal control and accounting systems are a step in the right direction. Since the act requires the department to issue an annual statement on its internal control and accounting, GAO is hopeful that improvements will result in the future.

In addition, during the first year implementation of the FMFIA, the Department of Education assessed its ED Financial Management Information System (the general ledger) in accordance with the accounting principles and

standards prescribed by the Comptroller General. The evaluation report of the system states that the system is costly and cumbersome to operate. It also states that the system needs replacing as quickly as possible because of numerous deficiencies such as untimeliness, duplication, and extensive manual intervention. GAO believes the department needs a modern, efficient, and compatible system that contains the necessary internal controls.

To satisfy the act's requirments, the department will have to evaluate continuously its systems of internal accounting and administrative controls. These systems are necessary not only for financial and administrative activities, but for program and operational activities as well. In addition, the department will have to develop a plan to evaluate, improve, and report on its internal control systems in the most efficient and effective manner.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO has previously reported that significant savings could be achieved through improvements in the department's financial systems. The PPSSCC does not present sufficient information for GAO to ascertain if the estimated savings can be realized.

V. RELEVANT GAO REPORTS

GAO/AFMD 84-57	Significant Improvements Seen In Efforts To Collect Debts Owed The Government (Apr. 28, 1983)
GAO/HRD 81-124	Stronger Actions Needed To Recover $730 Million In Defaulted National Direct Student Loans (Sept. 30, 1981)
GAO/HRD 81-139	Guaranteed Student Loan Information System Needs A Thorough Redesign To Account For The Expenditure of Billions (Sept. 24, 1981)

VI. GAO CONTACT

John Simonette 275-9489

ED 9: ADP OPERATIONS AND SYSTEMS DEVELOPMENT

I. PPSSCC ISSUE AND SAVINGS

"Can the realignment of automated data processing (ADP) resources within the Department of Education (the Department) provide state-of-the-art management information systems and internal control functions as well as more effective administration of Department programs?"

The PPSSCC projected that $19.4 million could be saved over 3 years by improving ADP design and management.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO agrees with the PPSSCC that better information management, tighter controls of program funds, and reduced annual ADP operating costs can be achieved by improving ADP management and by converting from the present antiquated ADP systems to state-of-the-art technology. The large expenditure of resources to develop ADP systems requires effective planning and management control. GAO believes that organizational involvement, direction, structure, control, and reporting requirements will prevent the most serious problems encountered in ADP systems development projects. If properly implemented, the nine recommendations for the Department (such as establishing responsibility and accountability for ADP plans, establishing a steering committee, and upgrading the knowledge and skills of the ADP staff) should provide for better ADP management controls and improved data processing support.

In its 1981 report (GAO/HRD-81-139), GAO noted weaknesses in ADP management controls in the Guaranteed Student Loan (GSL) information system. These weaknesses included incomplete data and inadequate controls. GAO recommended that the Department (1) improve management controls for ADP system life-cycle management and for the development of ADP systems under contract and (2) develop comprehensive plans and timetables for completing and implementing a total GSL system redesign. These recommendations are consistent with those made by the PPSSCC.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that existing agency authority is adequate to implement the nine recommendations. The Department has implemented six recommendations by (1) directing the Deputy Secretary for Management to take responsibility for the ADP function, (2) establishing an ADP steering committee, (3) upgrading the knowledge and skills of the ADP staff, (4) using local area networking,

(5) adopting the Environmental Protection Agency's automated procurement tracking system, and (6) issuing clarifying directives on office automation.

The Department has a consultant/task force working on two of the issues to assess the feasibility of the recommendations. These recommendations call for the Department to (1) ensure the specifications for the three major ADP recompetitions have been upgraded as much as possible and (2) establish a comprehensive data dictionary to eliminate redundant data and to provide singular definitions for each data element.

The Department believes that it cannot implement the remaining recommendation calling for it to reexamine the ADP procurement strategy and to incorporate some of the successful approaches used by other federal agencies because the Department uses more contractors than most other agencies and it also uses basic ordering agreements.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The major premise of the PPSSCC's cost savings estimate is not supportable. Information was not available within the Department to make an accurate estimate of savings. Therefore, the PPSSCC used the "business judgement" of its survey members. GAO believes that the savings estimate should be based on a more rigorous analysis than "business judgement."

V. RELEVANT GAO REPORTS

GAO/HRD-81-139 Guaranteed Student Loan Information System Needs A Thorough Redesign to Account for the Expenditure of Billions (Sept. 24, 1981)

VI. GAO CONTACT

Thomas Giammo 275-4659

ENERGY 9: AUTOMATED DATA PROCESSING

I. PPSSCC ISSUE AND SAVINGS

What is the potential for cost savings or improved effectiveness in the Department of Energy's (DOE's) use of automated data processing (ADP)? The PPSSCC estimated that cost savings from better management of facilities, deferrals of new equipment, and better resource sharing would result in savings of $38.5 million over 3 years.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC recommendations to DOE related to better management control over the acquisition and use of ADP resources. In summary, the recommendations stressed that:

--The Office of ADP Management (OADPM) should be given approval authority over all software development for management information systems, including adopting departmentwide standards for systems development.

--Objectives for cost-effective use of ADP should be built into contracts for the operation of ADP facilities at government-owned, contractor-operated sites.

--Each site should be required to report ADP equipment use in such a way that OADPM can determine when and how much of that equipment capacity is actually being used.

--OADPM should follow up on whatever recommendation it makes regarding resource sharing opportunities by requiring a standard report that would require facilities to justify the reasons why--if applicable --potential sharing arrangements were not feasible.

--The planning and approval functions of OADPM and the Office of Computer Services and Telecommunications should be combined.

On the basis of prior GAO work at DOE, GAO agrees that better management of software, hardware, and telecommunications resources could improve ADP operations at DOE. By implementing standards for departmentwide approval and for software development, DOE could reduce duplication and ensure maximum practicable compatibility. Better use of hardware, including cost incentives for better use of ADP facilities, better resources utilization reporting, and more resource sharing would also be cost beneficial to DOE.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees that each of the recommendations related to this issue can be implemented under existinq authority. The magnitude of DOE's ADP operations--over 350 major information systems and 50 major computing facilities--requires that any operational changes be thoroughly planned and carefully executed. Although DOE has stated that the recommendations are good, it has not taken a definite position on whether they would be implemented.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO has not performed recent audit work at DOE that would validate the savings forecasted by the PPSSCC.

V. RELEVANT GAO REPORTS

GAO/EMD-78-60	Department of Energy's Consolidation of Information Activities Needs Improvement (May 3, 1978)
GAO/EMD-82-71	DOE Needs to Strengthen Computer Performance Evaluation and Improve Documentation of Procurement Actions (Apr. 29, 1982)
GAO/EMD-81-102	Greater Use of Satellite Telecommunications to Link ADP Facilities Could Save Millions (June 19, 1981)

VI. GAO CONTACT

Walter Anderson 275-9675

I. PPSSCC ISSUE AND SAVINGS

"Would the implementation of common automated administrative systems by Federal agencies reduce system development, maintenance, and operation costs and increase the availability and usefulness of Executive Branch management information?"

The PPSSCC found that the acquisition and implementation of common systems would save substantial resources and would improve management information overall. According to the PPSSCC's Automated Data Processing/Office Automation Task Force, annual savings achieved from the acquisition and operation of common systems in federal agencies could reach about $1 billion by full implementation. Since the Federal Management Systems Task Force recommended that first priority be given to developing and installing a common payroll system, this report estimated and projected savings for the payroll portion of the overall systems program.

While the acquisition of a common payroll system would require an investment in the first 3 years, the PPSSCC believes significant savings could be achieved by the time such a system was installed governmentwide. Specifically, the acquisition of a common payroll system is projected to cost $3.3 million in the first year, $3.6 million in the second, and $4.1 million in the third. By year 13 (after full implementation), the government is expected to have achieved a cumulative net savings of $734.9 million, with a decrease of approximately 2,000 staff-years in payroll clerical effort.

The PPSSCC also believes that additional benefits could be achieved through the increased availability of management information. If common systems were designed, developed, and implemented, information would be more readily available to executive branch managers from the many departments and agencies and would be more compatible.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC recommended that the President:

(1) Establish a program for replacing agency-unique automated systems with common systems.

(2) Designate the Office of Federal Management (OFM) as responsible for policy guidance, system design, acquisition, and maintenance.

(3) Identify the management information needed by agency heads and by central administrative agencies (Office of Management and Budget, Office of Personnel Management, Department of the Treasury, and General Services Administration (GSA)).

(4) Designate payroll as the first common system to be followed by accounts receivable, retirement/pension, general accounting, accounts payable, fixed-asset systems, and budgeting.

GAO generally supports the concept of common computer software systems as advocated by the PPSSCC in this issue. GAO believes it is more cost-effective to have a limited number of systems developed and maintained for use by multiple agencies and/or departments than to have each federal organization develop and maintain its own unique system.

The PPSSCC recommendations are consistent with recommendations made in various GAO reports. For example, in GAO/AFMD-83-29, GAO urged greater use of software packages as well as reuse of existing software and urged GSA to conduct pilot projects on common software for common applications. GAO believes common systems can be cost-effective and provide more reliable software.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO believes each PPSSCC recommendation on this issue can be implemented without congressional action, except for the second one. The second recommendation is related to and dependent upon PPSSCC issue FMS-1, which concerns the establishment of OFM. GAO believes the establishment of OFM will require congressional action.

GAO believes the issue represents a commendable goal and implementation could lead to more uniform and more cost-effective software development and use. However, the differences in agency operations, computer hardware, and software capabilities at the various federal departments and agencies will make implementation a challenging undertaking.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

It is not possible for GAO to evaluate the cost savings potential of this issue because of the wide range of related variables. GAO believes, however, that a properly implemented and maintained program could result in substantial savings to the government.

V. RELEVANT GAO REPORTS

GAO/AFMD-84-49	The Federal Government Can Reduce Costs in the Development, Maintenance, and Operation of Civilian Payroll Systems (Aug. 2, 1984)
GAO/AFMD-83-29	Federal Agencies Could Save Time and Money With Better Computer Software Alternatives (May 20, 1983)
GAO/AFMD-81-25	Federal Agencies' Maintenance of Computer Programs: Expensive and Undermanaged (Feb. 26, 1981)
GAO/AFMD-81-20	Government-Wide Guidelines and Management Assistance Center Needed to Improve ADP Systems Development (Feb. 20, 1981)

VI. GAO CONTACT

Thomas Giammo 275-4659

HOSP 7: THE MANAGEMENT INFORMATION SYSTEM IN THE VETERANS ADMINISTRATION HOSPITAL SYSTEM

I. PPSSCC ISSUE AND SAVINGS

Can the Veterans Administration (VA) develop a totally new automated data processing (ADP) system to provide management information? According to the PPSSCC, there would be a negative savings since capital and development costs would range between $190 and $250 million for the first year and total $365.5 million over 3 years.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO agrees that VA should develop its new hospital management information system. GAO also believes if the recommendations are implemented some benefits will result. However, GAO has not performed an analysis to quantify the full extent of the benefits.

The PPSSCC made the following recommendations to improve VA's hospital computer system:

(1) The VA must assess its mission and determine the course of ADP development.

(2) A task force should be created to develop a data processing plan for the Department of Medicine and Surgery (DM&S).

(3) Current ADP files must be revamped. The data processing needs of VA's medical core segment should be evaluated.

(4) The VA Administrator should give the DM&S direct control over operations and the staff responsible for processing data from the newly established DM&S central data base.

(5) The VA Administrator and the Chief Medical Director should establish a formal users group to establish priorities and needs. The group should consist of recognized data management professionals in VA who are already participating in the informal users group.

GAO agrees with the PPSSCC recommendations because they address concerns cited in GAO's report, VA Must Strengthen Management of ADP Resources to Serve Veterans' Needs (GAO/FGMSD-80-60, July 16, 1980).

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO believes that VA has the necessary authority to fully implement the PPSSCC recommendations. GAO noted in a current review that VA's DM&S has

--developed an annual 5-year ADP plan that assesses VA's mission and describes its direction and activities, including development of a new management information system;

--established a formal users group for ADP issues;

--approved a decentralized approach that gives the field responsibilities for ADP planning, budgeting, and operations; and

--begun implementing a new decentralized hospital computer system for patient care.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC estimated it would cost $365.5 million over 3 years to implement this issue. GAO has not performed a complete cost/benefit analysis and therefore cannot comment on the PPSSCC's cost estimate. In its report, GAO/FGMSD 80-60, GAO emphasized that benefits would result if the VA strengthened its management of ADP resources. The full extent of these benefits is not know since a complete analysis has not been performed by GAO.

V. RELEVANT GAO REPORTS

GAO/FGMSD-80-60	VA Must Strengthen Management of ADP Resources to Serve Veterans' Needs (July 16, 1980)
GAO/AFMD-81-3	Computerized Hospital Medical Information Systems Need Further Evaluation to Ensure Benefits from Huge Investments (Nov. 18, 1980)
Testimony	The Use of ADP in the Veterans Administration to Support Medical Care Facilities by Walter L. Anderson, before the Subcommittee on Government Information and Individual Rights, House Committee on Government Operations. Sept. 4, 1980.

VI. GAO CONTACT

Thomas Giammo 275-4659

INFO 1: INFORMATION NEEDS ASSESSMENT

I. PPSSCC ISSUE AND SAVINGS

Can the process of information needs assessment--the determination of the most critical information required for successful management of an organization--assist in improving information management in the federal government?

The PPSSCC stated that the cost savings relating to determining the right information needed are estimated at $17.4 billion over a 3-year period; however, the savings are duplicative of those reported in other PPSSCC reports. The savings are presented in this issue only to provide a perspective of the problem.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC recommended that:

(1) The Office of Management and Budget (OMB) or the proposed Office of Federal Management establish an information needs assessment process employing the critical success factor technique--key factors that must be done exceedingly well to achieve success.

(2) Each department and agency conduct an organization-by-organization information needs assessment.

(3) The needs assessment process be implemented using private-sector standards.

GAO agrees overall that assessing information needs is a critical step in the information management process. The Paperwork Reduction Act of 1980 (Public Law 96-511), which GAO supports, calls for information needs assessment. GAO has reported (GAO/GGD-80-14 and GAO/GGD-81-32) that information needs assessment is important. However, GAO has no stated position on the use of the critical success factor technique or the use of private-sector standards in implementing the information needs assessment process as recommended by the PPSSCC.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees that the recommendations can be implemented with existing executive branch authority. Even though GAO has no stated position on parts of the recommendations, the recommendations are, in all likelihood, feasible.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The cost savings estimated at $17.4 billion duplicate those reported in other PPSSCC reports.

V. RELEVANT GAO REPORTS

GAO/GGD-80-14	Department of Agriculture: Actions Needed to Enhance Paperwork Management and Reduce Burden (Mar. 10, 1980)
GAO/GGD-81-32	The Trucking Industry's Federal Paperwork Burden Should Be Reduced (Mar. 3, 1981)

VI. GAO CONTACT

Thomas Giammo 275-4659

INFO 2: INFORMATION COLLECTION

I. PPSSCC ISSUE AND SAVINGS

Can the process of information collection--getting the right data in a quality state--assist in reducing the information gap problems (producing useful and sufficient information) in the federal government?

The PPSSCC stated that the cost savings from collecting the right data are estimated at $27 billion over a 3-year period; however, the savings duplicate those reported in other PPSSCC reports. The savings are presented in this issue only to provide a perspective of the problem.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC recommended that:

(1) Each agency review the types and quality of data it uses or needs to monitor performance.

(2) The government adopt the generally accepted accounting principles, tailoring them to the needs of the government's accounting and finance systems.

GAO agrees that data collection is a critical step in the information management process toward producing useful and sufficient information. GAO also agrees that standardization of data collection is one way to ensure quality data. The Paperwork Reduction Act of 1980 (Public Law 96-511) upholds the concept that agencies should only gather data that are needed to efficiently and effectively manage their operations.

The PPSSCC recommendation regarding the adoption of generally accepted accounting principles is supported by GAO's accounting principles and standards for federal agencies (Title 2 of the General Accounting Office Policy and Procedures Manual for Guidance of Federal Agencies).

GAO's accounting principles and standards contained in the new version of Title 2 follows, to the maximum extent practicable, the private sector's generally accepted accounting principles. GAO has the authority, under 31 U.S.C. 3511, for prescribing the principles, standards, and related requirements for accounting to be observed by the executive agencies, except for certain organizations specifically excluded by law. GAO standards are to be followed in 1985, and when agencies submit their annual reports under the Federal Managers' Financial Integrity Act, they will have to state if they have followed GAO standards.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees that executive agencies can implement the recommendations without further legislative action.

GAO believes that the recommendations are feasible. In fact, regarding the adopting of generally accepted accounting principles and tailoring them to the needs of the federal government, GAO has recently revised its accounting principles and standards to accomplish this.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The cost savings estimated at $27 billion duplicate those reported in other PPSSCC reports.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

Thomas Giammo 275-4659

INFO 3: INFORMATION SYSTEMS

I. PPSSCC ISSUE AND SAVINGS

"Can improvement of information systems create cost saving efficiencies and facilitate managerial decisionmaking throughout the Federal Government?"

The PPSSCC stated that the cost savings related to improving information systems are estimated at $13.3 billion over a 3-year period; however, the savings are duplicative of those reported in other PPSSCC reports. The savings are presented in this issue only to provide a perspective of the problem.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC recommended that:

(1) Responsibility for overall policy for management information systems (MIS) and automated data processing (ADP) systems management be centralized in the Office of Management and Budget (OMB) or the proposed Office of Federal Management, and that performance measurement based on achieving specific agency and interagency objectives be instituted.

(2) Each agency and department should submit to OMB a long-range strategic plan for upgrading their information systems, and budgeting and management incentives should be directly tied to performance and implementing the program plans.

(3) A software clearinghouse and technical resource center be established to provide the development of compatible information systems.

GAO agrees with the basic thrust for improving information systems. The Paperwork Reduction Act of 1980 (Public Law 96-511), which GAO supports, (1) gives OMB responsibility for governmentwide ADP policy; (2) requires agencies to inventory their major information systems and review their information management activities; and (3) directs OMB, in consultation with the General Services Administration (GSA), to develop a 5-year plan for ADP and telecommunication needs of the federal government.

The basic thrust of the PPSSCC recommendations is further supported in previous GAO reports. GAO has reported (GAO/FGMSD-80-57) that, although not specifically addressing

MIS and ADP systems, institutionalizing performance measurement systems in such areas as planning personnel management activities is important. Regarding the planning for improving information systems, GAO reported (GAO/FGMSD-78-33) that productivity data would be useful in the budget process in regards to tying budget and management incentives to performance and implementation plans. GAO has also made recommendations (GAO/AFMD-83-29) to encourage the use of more cost-effective methods of satisfying software needs in the federal government. One of those recommendations called for OMB to direct agencies to make their software available to GSA's Federal Software Exchange Center for sharing.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that existing executive branch authority is adequate to implement the recommendations. Successful implementation is dependent on OMB's involvement and GSA's input. GAO believes that the recommendations are feasible because they are similar to those actions called for by the Paperwork Reduction Act and prior GAO reports.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The cost savings estimated at $13.3 billion duplicate those reported in other PPSSCC reports.

V. RELEVANT GAO REPORTS

GAO/FGMSD-78-33	Improving Federal Agency Efficiency Through the Use of Productivity Data in the Budget Process (May 10, 1978)
GAO/FGMSD-80-57	Evaluating a Performance Measure System--A Guide for the Congress and Federal Agencies (May 12, 1980)
GAO/AFMD-83-29	Federal Agencies Could Save Time and Money with Better Computer Software Alternatives (May 20, 1983)

VI. GAO CONTACT

Thomas Giammo 275-4659

INFO 5: A STRUCTURE TO FACILITATE THE INFORMATION MANAGEMENT PROCESS

I. PPSSCC ISSUE AND SAVINGS

"How can the overall information management process be strengthened to provide both an effective and efficient information management process in the Federal Government?"

The PPSSCC stated that the cost savings involved in strengthening the information management process are estimated at $9.6 billion over a 3-year period; however, the savings are duplicative of those reported in other PPSSCC reports. The savings are presented in this issue only to provide a perspective of the problem.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC recommended that:

(1) A presidential task force on information management be established to conduct an information needs assessment and to set goals at the Executive Office of the President level.

(2) A federal information resources management office be established in the proposed office of federal management.

(3) A position of information management coordinator be created in each department and agency.

GAO agrees that a structure is necessary to ensure an effective and efficient information management process. GAO identified numerous instances in which federal agencies need to improve the management of their information resources. The results of these audits led GAO to strongly support enactment of the Paperwork Reduction Act of 1980 (Public Law 96-511), which established a structure for managing information resources similar to that proposed by the PPSSCC. Under the Paperwork Act, the Office of Management and Budget's (OMB's) Office of Information and Regulatory Affairs is assigned central management, policy setting, and oversight responsibilities for government information activities. Such responsibilities would be assigned to the governmentwide information management office in the proposed Office of Federal Management recommended by the PPSSCC (FMS 1-1).

Regarding the information management coordinators, the Paperwork Reduction Act already calls for the responsibilities similar to those of an information management coordinator to be handled by a "senior official." This official is

appointed by the agency head to be responsible and accountable for carrying out the agency's information management activities.

While the structure called for by the PPSSCC is essentially in place as a result of the Paperwork Reduction Act, more needs to be done by OMB and the agencies to effectively implement their responsibilities under the act. For example, OMB's Office of Information and Regulatory Affairs needs to establish new and update existing policies and guidance covering the broad range of information activities covered by the act. In turn the agencies need to organize and better manage information activities, correcting the deficiencies identified in developing and maintaining information systems so the system will effectively support mission accomplishment.

On the establishment of a presidential task force to conduct an information needs assessment in the Executive Office of the President, GAO has not made a similar recommendation. However, the information needs of the Executive Office of the President should be clearly defined just as are the needs of any agency. Under the Paperwork Reduction Act, agency officials will determine their own needs. GAO has no basis to comment on what the duties of the presidential panel, as outlined by the PPSSCC, should include.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that the recommendations can be implemented with existing executive branch authority. However, the creation of an Office of Federal Information Resources Management and information management coordinators call for similar responsibilities currently assigned to OMB's Office of Information and Regulatory Affairs and senior officials under the Paperwork Reduction Act. Such similarities between the two might necessitate amendments to the Paperwork Reduction Act. GAO believes that the recommendations are feasible.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The cost savings estimated at $9.6 billion duplicate savings reported in other PPSSCC reports.

V. RELEVANT GAO REPORTS

Testimony — *The Paperwork Reduction Act of 1980*, by Elmer B. Staats, Comptroller General of the United States, before the Subcommittee on Legislation and National Security, House Committee on Government Operations. Feb. 7, 1980.

Letter	Comments on the Paperwork Reduction Act of 1980, by Elmer B. Staats, Comptroller General of the United States, to the Chairman, Subcommittee on Federal Spending Practices and Open Government, Senate Committee on Governmental Affairs. July 25, 1980.

VI. GAO CONTACT

Thomas Giammo 275-4659

JUST 5: DEPARTMENT OF JUSTICE ADP SYSTEMS

I. PPSSCC ISSUE AND SAVINGS

"Can general purpose automated data processing (ADP) systems in the Department of Justice (DOJ) be made more cost-effective?"

The PPSSCC stated that the development of effective ADP systems would result in substantial cost savings, but the savings cannot be quantified until requirements are fully defined and the systems design is complete.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

On the basis of ongoing work, GAO agrees that ADP systems within DOJ can be made more cost-effective. However, GAO believes that, in achieving this objective, the agency should replace and upgrade DOJ's obsolete computer hardware systems only after it has implemented the other PPSSCC recommendations addressing comprehensive ADP planning, a comprehensive study of data processing alternatives, and user needs assessments. At a minimum, these activities need to be in place before hardware upgrades are conducted and are necessary in determining the cost-effectiveness of ADP systems.

During the FY 1985 appropriations process, DOJ stated that a comprehensive departmentwide ADP planning process has yet to be implemented. DOJ anticipates having such a plan by FY 1987. Therefore, while GAO agrees in principle with this issue and the associated recommendations, it believes that the decision to replace and upgrade equipment should be based on a departmentwide plan that reflects the results of user needs assessments, data processing alternatives, etc., rather than on the acquisition of state-of-the-art technology.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that implementation of this issue can be done under existing authority. Further, the substance of the issue, "Can ADP systems be made more cost-effective?" is not only feasible but a basic goal of sound ADP management practice. GAO is not able to comment on DOJ's overall actions to implement the PPSSCC's recommendation. However, as noted above, DOJ has not implemented a departmentwide ADP planning process.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC did not develop a savings estimate for this issue.

V. RELEVANT GAO REPORTS

GAO/AFMD-81-9	Continued Use of Costly, Outmoded Computers in Federal Agencies Can Be Avoided (Dec. 15, 1980)

VI. GAO CONTACT

James Watts 275-3455

LABOR 6: MANAGEMENT AND CONTROL OF AUTOMATED DATA PROCESSING

I. PPSSCC ISSUE AND SAVINGS

Should the Department of Labor (DOL) exercise central control over the acquisition and management of department-wide automated data processing (ADP) equipment, services, and personnel?

The PPSSCC stated that savings and avoided costs resulting from centralized control over acquisition and management of ADP equipment, services, and personnel in DOL could amount to $8 million over 3 years.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC recommended that DOL:

(1) Exercise central control over acquisitions and management of ADP equipment, services, and personnel.

(2) Define its desired ADP environment and develop a plan for achieving that environment.

(3) Replace numerous individual ADP system procurements with a single procurement for a series of systems.

(4) Establish centralized, department-level management of in-house and contract programmers.

(5) Consider outside contractors for the provision of ADP equipment or services.

(6) Include in the cost of procuring a system the full cost of converting to any system incompatible with DOL's defined ADP environment.

(7) Lower the dollar limit of procurements requiring department-level approval from $50,000 to $1,000.

GAO agrees that DOL should establish strong central control over its information resources, including all ADP equipment, services, and personnel. To make the PPSSCC recommendations consistent with the provisions of the Paperwork Reduction Act of 1980, however, DOL should include the "data" component of the department's information resources under the centralized management and control of the DOL senior information resources management (IRM) official. The current lack of strong, centralized control and guidance at DOL has resulted in inadequate short- and long-range IRM planning; inadequate direction and control over system

development procurement, and implementation; and inadequate evaluations of overall IRM activities.

GAO agrees with the PPSSCC's assertion that centralized control of information resources is critical to DOL's accomplishing its programmatic objectives efficiently and effectively. However, GAO does not fully agree with three of the PPSSCC's recommendations to meet this goal. These recommendations involve (1) using single instead of multiple procurements, (2) centrally managing in-house and contract programmers at the department level, and (3) lowering the dollar limit of procurements requiring department-level approval from $50,000 to $1,000.

GAO believes the level of specificity of these three recommendations is unnecessary, given the detailed provisions of the Paperwork Reduction Act pertaining to the senior IRM official's duties and responsibilities. It is the senior IRM official who is in the best position to evaluate, on a case-by-case basis, such issues as single versus multiple procurement alternatives, the departmentwide use of in-house versus contract programmers, and the dollar levels of procurements requiring department-level approval.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that the implementation of the recommendations could be accomplished through executive action. With the exception of the three recommendations discussed above, GAO also believes that implementation of the recommendations would be feasible, given sufficient support from the Secretary of Labor and the Assistant Secretary for Administration and Management. However, officials at different levels within DOL have expressed the desire to maintain decentralized IRM due to the disparity in functions among agencies and programs. DOL rejected the PPSSCC recommendation concerning department-level, centralized management of in-house and contract programmers on this basis.

DOL has acknowledged the merits of the general issue. It is also in the process of implementing four of the seven PPSSCC recommendations (numbers 1, 2, 5, and 6). Most of DOL's implementation activity involves developing departmental policy on acquisition and management of ADP resources and developing ADP plans for administrative and programmatic units.

To implement the PPSSCC recommendations, DOL has prepared draft policies on such activities as the (1) acquisition and management of ADP resources, (2) preparation of agency 5-year ADP plans, (3) use of contractors, and (4) costs of conversion. DOL plans to include such IRM policies in a departmentwide policy and procedures manual,

which it expects to issue during the Fall of 1984. The Directorate of Information Technology within the Office of the Assistant Secretary for Administration and Management (OASAM) has also developed an ADP strategy paper, which defines DOL's desired ADP environment and proposes an implementation plan to attain such an environment.

Finally, OASAM recently announced the merger of its directorate charged with ADP oversight and its directorate charged with records management. With the merger, DOL hopes to integrate the hardware, software, data, and personnel components of information resources management under a single official.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO is unable to determine (1) the validity of the approach and assumptions used by the PPSSCC in making its computations and (2) the accuracy of the factual evidence behind the PPSSCC's computations, since the PPSSCC did not disclose this information.

V. RELEVANT GAO REPORTS

GAO/RCED-84-9	Increasing the Department of Housing and Urban Development's Effectiveness Through Improved Management (Jan. 10, 1984)
GAO/AFMD-82-54	Strong Central Management of Office Automation Will Boost Productivity (Sept. 21, 1982)
GAO/CED-82-100	Commodity Futures Regulation--Current Status and Unresolved Problems (July 15, 1982)

VI. GAO CONTACT

Thomas Giammo 275-4659

NAVY 9: AUTOMATED DATA PROCESSING

I. PPSSCC ISSUE AND SAVINGS

"Can the Navy shorten the time interval required to research, design, develop and install new computer systems?" The PPSSCC estimated an average savings of about $500 million per year. The savings for the 3-year period, fiscal years 1986 through 1988, was estimated to be $1.08 billion.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC reported on the obsolete computers supporting key Navy programs and the protracted time frames for acquiring new computers and developing new systems. Protracted acquisition and development efforts increase costs and often lead to less-than-optimal solutions to automated data processing (ADP) problems. The PPSSCC made the following recommendations to correct these problems.

(1) ADP approval cycles should be shortened by consolidating reviews.

(2) General purpose computers should be used whenever possible.

(3) The Delegation Procurement Authority (DPA) from the General Services Administration (GSA) should be more fully used.

(4) The "umbrella" contract, a prearranged contract against which orders can be placed, should be used to the fullest possible extent.

(5) An Office of Navy ADP Plans and Operations should be established under the Vice Chief of Naval Operations.

GAO generally agrees with the PPSSCC concerns and the objectives of the recommendations. GAO has made previous recommendations on the Navy's use of general purpose computers and overall ADP management and planning.

The PPSSCC rationale for recommending Navy use of general purpose computers is that the procurement cycle can be shortened by saving specification development and response time. GAO believes that time is not always the most important factor. Several past GAO reports show that the Navy is paying mainly in money, and secondarily in time, by specifying Navy-unique computers rather than off-the-shelf technology.

The blanket DPA from GSA--an experimental project--encourages the Navy to prepare annual ADP acquisition plans.

After reviewing the Navy's plan, GSA may decide to require a separate DPA for some of the planned systems. For other systems in the plan, it may grant an annual DPA. This would merely require the Navy to report to GSA, after the fact, each acquisition made against the annual authorization. Although two annual delegations have already been granted by GSA, the Navy has yet to report an acquisition.

Regarding the first recommendation, GAO has stated that the Navy must establish a centralized monitoring program to ensure that all possible management actions are taken to meet milestone completion dates and cost projections. GAO has no basis for commenting on the fourth recommendation regarding the Navy's use of umbrella contracts.

Regarding the fifth recommendation, the Navy already has an organizational structure almost exactly like the one recommended. However, it appears that, by design, the Navy's ADP program is managed according to its principal philosophy of "centralized policy direction and decentralized execution." To adopt this recommendation, the Navy would have to change its decentralized execution approach to managing the Navy, which GAO views as unlikely.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that the Navy, on its own initiative or in concert with GSA, could implement the recommendations. GAO does not have any status report on the Department of Defense's (DOD's) response to the recommendations. As noted earlier, the general ADP management framework in the Navy appears to be about the same as that recommended by the PPSSCC. The PPSSCC recommendations appear feasible and could contribute to improving the timing of automated systems acquisition and development.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC reports savings up to $1.08 billion over 3 years. The PPSSCC savings are based on private-sector estimates of a 3-year payback on research and development (R&D) ADP project expenditures--an annual return of one-third of dollars spent. After 3 years, the full cost of the ADP project is recovered and savings begin accruing. GAO has not determined whether the 3-year payback period is valid. However, using the prescribed method, the PPSSCC should have applied the one-third factor to comparable Navy R&D ADP expenditures. Instead, the PPSSCC applied the method to the entire Navy R&D budget, rather than the ADP expenditures. This is inconsistent with the PPSSCC's methodology and could inflate the estimated savings.

V. RELEVANT GAO REPORTS

GAO/MASAD-83-26	DOD Should Change Its Approach to Reducing Computer Software Proliferation (May 26, 1983)
GAO/MASAD-81-28	Navy Tactical Computer Development--Limited Competition and Questionable Future Software Savings (May 15, 1981)
GAO/LCD-78-107	Letter to the Secretary of the Navy on Its Efforts to Improve ADP Management (Dec. 1, 1978)

VI. GAO CONTACT

William Franklin 275-3188

PPAV 6: IMPROVING THE MANAGEMENT OF COPYING AND DUPLICATING RESOURCES

I. PPSSCC ISSUE AND SAVINGS

"Can improved management of copying and duplicating resources result in a reduction of Federal Government expenditures for this activity?"

The PPSSCC has identified potential savings of $328 million over 3 years through improved management of equipment acquisition and utilization, centralized oversight, and technical assistance.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

To reduce expenditures for copying and duplicating, the PPSSCC recommended that:

(1) The General Services Administration (GSA) provide technical support and management guidance on copiers and duplicators, develop an inventory of available technology, and keep an inventory of the size and scope of agency programs.

(2) The Office of Management and Budget (OMB) provide central direction and budgetary control over copying and duplicating.

(3) The information resources manager oversee agencies' copying and duplicating resources.

(4) Specific copier selection, tracking, and management techniques, including those applicable to automated systems, be implemented by the agencies.

GAO agrees with the PPSSCC that improved management of copying and duplicating resources can potentially reduce expenditures. The PPSSCC criticism of agency copier management and the lack of statistics on copier use are consistent with GAO observations.

The recommendation that OMB provide direction on these matters is consistent with GAO's position on the Paperwork Reduction Act. Because GAO has done little, if any, work in the areas addressed by the other recommendations, it cannot comment on their merit.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that existing executive branch authority is adequate to implement the recommendations. GAO also believes that the recommendations incorporated in this issue are feasible.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The 3-year governmentwide savings estimate of $328 million is an extrapolation of savings from management improvements realized at the Navy and Justice Departments. GAO believes that the PPSSCC's projection of savings may be unrealistic. Although we have not recently reviewed the agencies' copier management programs, GAO understands that the Air Force and Social Security Administration enjoyed a reputation for having good copier management programs in the mid-1970s. Other agencies may also do an effective job managing their copying and duplicating resources. Also, one of the PPSSCC recommendations called for the use of automated equipment simulation and tracking systems by GSA and government agencies. The costs of putting these systems in place were not considered by the PPSSCC in calculating its savings estimate.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

Thomas Giammo 275-4659

TREAS 5: UTILIZATION OF ADP CAPABILITIES

I. PPSSCC ISSUE AND SAVINGS

How can the Internal Revenue Service (IRS) use its installed and planned systems to make employees more productive, to effect cost savings, and to provide better service to the public?

The PPSSCC estimated total savings of $56.1 million within the first 3 years. This savings assumes an inflation rate of 10 percent per year. In addition, the PPSSCC claimed that $15 million in revenues could be realized by the sale of one service center.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO agrees in principle with the PPSSCC's findings on this issue. However, it believes that one of the three associated recommendations is generally without merit. GAO strongly endorses the recommendation that IRS implement a systems strategic planning process. It has twice recommended that IRS develop a strategic plan. An effective planning process is essential for competitive procurements of automated data processing (ADP) technology and for the development and implementation of quality automated information systems. GAO also endorses the recommendation that IRS make a senior official responsible for all ADP equipment planning and acquisition.

GAO does not support the recommendation to reduce the the number of IRS service centers from 10 to 8. While GAO has not done work specifically focusing on the number of service centers, it is aware of serious computer capacity problems at the service centers. GAO believes these capacity problems significantly affect the cost-effectiveness and possibly the feasibility of closing one or more of the centers. Although GAO has not discussed work load shifting with IRS officials, it believes that a major shift of service center workload could introduce additional risk of an inadequate analysis, inappropriate conclusions and management actions, and undesirable consequences.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC view that implementation can be done under the existing authority of the executive branch. However, it believes that the Congress will likely want to be informed in advance of the closure of any service center and would also need to approve any funds to implement the recommendation.

GAO believes that the recommendation to reduce the number of service centers from 10 to 8 may not be feasible at this time. Until IRS can better determine its computer capacity needs, the risk of disrupting critical processing seems too high to close any of the service centers. The recommendation to make the Associate Commissioner, Data Services, responsible for all ADP equipment planning and acquisitions is feasible. The PPSSCC recommendation to implement a systems strategic planning process is not only feasible but should be implemented as soon as possible.

According to IRS officials, all but one of the recommendations have been implemented. The matter of closing one or more service center has been deferred until more progress can be made on the Tax System Redesign project. That project will probably determine the optimal number of service centers needed to support the new tax processing system due to come on line in the 1990s.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO has not performed an independent cost/benefit analysis regarding the closing of two IRS service centers. However, it believes the PPSSCC cost savings analysis is questionable. Specifically, PPSSCC's estimated cost of $8 million to upgrade computer equipment at remaining IRS centers is probably significantly understated. IRS recently estimated that the total cost, through FY 1986, for implementing proposed solutions to the capacity problem would be over $37 million.

No savings estimates were associated with the other recommendations under the TREASURY 5 issue.

V. RELEVANT GAO REPORTS

GAO/GGD-79-48	IRS Can Better Plan for and Control Its ADP Resources (June 18, 1979)
GAO/GGD-82-9	The Treasury Department and Its Bureaus Can Better Plan for and Control ComputerResources (Feb. 22, 1982)
GAO/GGD-83-103	Computer Technology at IRS: Present and Planned (Sept. 1, 1983)
GAO Publication	Questions Designed to Aid Managers and Auditors in Assessing the ADP Planning Process (Sept. 30, 1982)

VI. GAO CONTACT

James Watts 275-3455

I. PPSSCC ISSUE AND SAVINGS

"What improvements should be made in the automated data processing (ADP) and telecommunications environment to better support the Veterans Administration (VA)?" The PPSSCC did not estimate the savings potential for this issue.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

On the basis of current work, GAO agrees that improvements should be made in VA's ADP activities to better support VA and its mission.

The PPSSCC made the following six recommendations to improve ADP and telecommunications in VA:

(1) Establish ADP steering committees at all levels within VA.

(2) Implement a program to improve application planning, selection, and development.

(3) Implement a program to encourage more efficient and effective use of ADP resources.

(4) Upgrade VA computing hardware and integrate it into a new high-speed communications network.

(5) Replace the most critical, aging, and fragmented computerized applications at the Department of Veterans Benefits (DVB) with an integrated set of applications available.

(6) Place a moratorium on hiring additional personnel and procuring equipment in support of hospital core systems.

GAO believes that VA can, and should, implement the first five PPSSCC recommendations. In particular, aging software is a problem that is seriously undermining VA's ability to carry out its mandated mission. For example, archaic and obsolete software in the Compensation and Pension Benefit Delivery System has contributed to benefit overpayments and benefit nonpayments. Similar software issues need to be resolved by VA for both the Loan Guaranty System and the Insurance System.

Because of actions taken by VA, the PPSSCC recommendation concerning a moratorium is not appropriate at this time. GAO believes that the recommendation had merit when the PPSSCC was conducting its study, but soon after the

PPSSCC completed its review of VA, the agency took steps to resolve the PPSSCC's concerns. The PPSSCC was concerned that VA had developed various alternative approaches to hospital automation without reaching agreement on the approach to follow. In early 1983, VA selected its approach for hospital automation and is currently proceeding in that direction.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

VA is making some progress in implementing the recommendations. On the basis of current work, GAO agrees with the PPSSCC that VA has existing authority needed to implement the recommendations. Furthermore, efforts are currently under way to (1) implement effective steering committees (2) provide a formal, structured information resources management function, (3) upgrade computer hardware at data processing centers in Hines, Illinois, and Austin, Texas, and (4) implement hospital automation through the Decentralized Hospital Computer Program. However, VA has yet to implement the PPSSCC's recommendation to replace the most critical, aging, and fragmented DVB computerized applications. VA continues to rely on local ad-hoc software fixes with little commitment to initiating a formal, structured software improvement project. So, even though VA is making progress, more needs to be done, especially in improving application software in the benefits systems.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

No specific estimate of savings was developed by the PPSSCC.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

Thomas Giammo 275-4659

CHAPTER 10

REVENUE MATTERS

The PPSSCC offered numerous proposals addressing the need to collect additional revenues that could help reduce the growing federal budget deficit.

The 43 issues GAO analyzed in this area involve recommendations to increase federal revenues through more efficiently and effectively administering the tax laws, broadening the applicability of federal taxes, and expanding the use of fees charged to those who use government facilities and services. GAO found overall merit in 33 of the 43 issues, questioned the merits of six others, and did not have sufficient information to take a position on the remaining four. The PPSSCC estimates that increased revenue of $17.4 billion could be attained over 3 years if its recommendations making up the issues with which we agree are implemented. Although GAO generally agrees with the PPSSCC on the merits of these issues, it questions the PPSSCC's estimates of increased revenues. Thirty of the 43 issues GAO examined require legislation to be fully implemented while 13 could be implemented by executive action.

TREAS 3: IRS APPEALS AND TAX COURT BACKLOG

I. PPSSCC ISSUE AND SAVINGS

"Can the settlement of appeals and Tax Court cases be accelerated, generating an interest benefit from accelerated revenue collection?"

The PPSSCC estimated that implementation of its recommendation could result in annual revenue accelerations of $1 billion in settlements and net interest savings of $645.6 million over 3 years, after allowing for implementation costs.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO agrees with the PPSSCC that the enormous backlog of cases faced by the Tax Court threatens its effectiveness. GAO has reported that one of the major problems confronting the Tax Court is that prompt resolution of tax cases is becoming increasingly difficult. However, GAO does not agree with the PPSSCC's recommended solution: establishing a decentralized appellate tax board that would have purview over small tax cases.

Implicit in this recommendation is the PPSSCC assumption that the current inventory of small tax cases cannot be managed by the Tax Court. However, in a recently completed review, GAO found that the Tax Court did not have a growing backlog of small cases. In fact, it had about a 1-year inventory and was resolving small cases at about the same rate as small cases were being filed, while falling further behind in regular cases.

GAO has made recommendations to the Tax Court that should greatly increase the Court's case closings at little additional cost. GAO believes implementing those recommendations should eliminate the growth in case backlog and accelerate the revenue collections--the rationale for the PPSSCC recommendation. GAO's preliminary estimate is that its recommendations could generate about $100 million in additional revenue (exclusive of interest).

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

Both GAO and the PPSSCC believe legislation would be necessary to create the decentralized appellate tax board contemplated in the PPSSCC recommendation. However, while GAO believes implementation of this recommendation is feasible, it thinks the recommendation is inadvisable and unnecessary. The IRS' Commissioner and Chief Counsel both have advised the Secretary of the Treasury to oppose creation of

the appellate tax board and suggested instead adopting proposals to speed the review process. Thus far, no legislative bills have been introduced to create an appellate tax board.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

In computing its savings estimate, the PPSSCC included nondocketed cases, that is administrative appeals, with cases pending before the Court. GAO believes that a board, such as the one PPSSCC recommended, however, would be used for only those cases that are formally brought before the Court. Thus, the current appeals process would not be supplemented. GAO agrees that implementation of this recommendation would result in a cash infusion to the Treasury in its first year of implementation, but GAO does not have sufficient information to evaluate the PPSSCC's revenue estimates.

V. RELEVANT GAO REPORTS

GAO/GGD-84-25 Tax Court Can Reduce Growing Case Backlog and Expenses Through Administrative Improvements (May 14, 1984)

VI. GAO CONTACT

Johnny Finch 275-6407

TREAS 1: COLLECTION OF DELINQUENT TAXES

I. PPSSCC ISSUE AND SAVINGS

"Can the better use of resources and collection methods by the Internal Revenue Service (IRS) expedite the collection of delinquent taxes, thereby providing a benefit in added revenues and reduced costs?"

The PPSSCC estimated that 3-year savings of $1,057.6 million and revenue accelerations of $2,835.3 million are possible if the federal government implemented the PPSSCC's recommendations.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO fully agrees with the PPSSCC that the number and amount of delinquent tax accounts have in recent years been increasing faster than IRS can deal with them. GAO has done extensive work in this area, and indications are that passive collection policies, inadequate use of taxpayer financial information, inefficient operation of the collection program, lack of management information, and limited resources have all contributed to this increase in tax delinquencies. GAO has reported on all these problems in the past and has made several recommendations to help IRS overcome them.

The PPSSCC makes 14 separate recommendations to improve the collection of delinquent taxes. Six of the recommendations are similar to, or consistent with, conclusions and recommendations contained in two GAO reports (GAO/GGD-82-4 and GAO/GGD-83-63). The PPSSCC recommendations call for (1) staffing the IRS' Collections Department on the basis of the projected workload volume, (2) adding clerical support for IRS' revenue officers, (3) classifying delinquent taxpayer accounts on the basis of specified characteristics, (4) obtaining payment or levy sources when examination personnel conclude their audits, (5) adding management control reports on collections activity, and (6) requiring the use of payroll deduction or automatic bank transfer to collect all installment agreements.

Of the eight PPSSCC recommendations that address areas not covered in the two GAO reports, GAO has done sufficient work to take a position on the merits of three. GAO agrees with the PPSSCC recommendation on expanding the use of telephone contacts to cover evenings and Saturday mornings. Such contacts could increase the effectiveness of IRS' limited collection resources. GAO, however, disagrees with the PPSSCC on the merits of two other recommendations: (1) to have the service center send a copy of the taxpayer's return to the district office along with each delinquent account that does not contain a levy source, and (2) to combine the

taxpayer service activity and the collection activity under one division. GAO believes that having the service center send the return to the district office may not be cost-effective and could delay, rather than aid, the collection process.

With regard to combining the taxpayer service with the collection activity, GAO believes that the taxpayer service's independence and visibility are very important for maintaining compliance under our voluntary assessment system. GAO further believes that it may be appropriate and cost-effective to combine some duties into a core group of employees at smaller IRS offices. However, a comprehensive combining of the two functions into one unit could compromise the spirit of any assistance because the two activities--assistance and enforcement--may be viewed by taxpayers as being contradictory.

GAO does not have sufficient information to evaluate the merits of the remaining five PPSSCC recommendations (1) requiring banks to accept levies by mail, (2) encouraging IRS' collection branches to use credit bureau information, (3) expanding IRS' authority to use credit bureau services, (4) requiring telephone numbers on tax returns, and (5) integrating the notice cycle into the Automated Collection System.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC indicated in its report that 2 of its 14 recommendations require legislative action. These two would (1) expand the capability of IRS to use credit bureau reports and (2) require banks to accept levies by mail. GAO agrees that expanding IRS' authority to use credit bureau reports would require legislative action, but disagrees on the need for legislative action for IRS to require banks to accept levies by mail. IRS has, in fact, already implemented that recommendation through a change to its regulations. GAO notes as well that one of the other PPSSCC recommendations--staffing the Collections Department on the basis of the projected workload volume--would need congressional approval through the appropriations process. GAO is not aware of other factors that could adversely affect the feasibility of implementing these 14 PPSSCC recommendations.

IRS has completed its actions to implement 2 of the 14 PPSSCC recommendations. IRS has changed its regulations and now requires banks to accept levies by mail. It has also implemented its Automated Collection System, which includes the use of evening and Saturday morning telephone contacts. Regarding another PPSSCC recommendation, IRS was unable to submit proposed legislation for the 1984 legislative session that would expand its authority to use credit bureau

reports, but the Department of the Treasury will attempt to include such legislation with the Department's legislative proposals in 1985. IRS is currently studying or testing ways to implement three other PPSSCC recommendations to (1) classify delinquent taxpayer accounts on the basis of specific characteristics, (2) encourage district collection offices to utilize local credit bureaus, and (3) require payroll deduction or automatic bank transfer for collecting installment agreements.

IRS has decided not to implement four PPSSCC recommendations which would (1) require examination staff to obtain payment or levy sources at the conclusion of audits, (2) provide additional management control reports on collections activity, (3) require taxpayers to provide telephone numbers on tax returns, and (4) have service centers send a copy of the tax return to the district office, along with the delinquent account, for any account without a levy source.

IRS has taken some action to implement modified versions of the remaining four PPSSCC recommendations. First, IRS is developing a schedule for formulating a comprehensive IRS staffing model that would include staffing the Collections Department and would consider projected workload volumes. Second, IRS has developed a plan for providing clerical support and has issued guidelines to establish Field Support Units, but has not accepted the PPSSCC's recommended six-to-one ratio for revenue officers to clerical support. Third, the IRS has given authority to Regional Commissioners to combine taxpayer service and collection functions for districts that are not call sites for the Automated Collection System and toll-free telephone calls. Finally, the IRS has taken steps so that fourth notices from the Integrated Data Retrieval System terminals will be worked through the Automated Collection System.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO has no basis for assessing the revenue benefit the PPSSCC associates with its recommendations on this issue.

V. RELEVANT GAO REPORTS

GAO/GGD-83-63 With Better Management Information, IRS Could Further Improve Its Efforts Against Abusive Tax Shelters (Aug. 25, 1983)

GAO/GGD-82-4 What IRS Can Do To Collect More Delinquent Taxes (Nov. 5, 1981)

VI. GAO CONTACT

Johnny Finch 275-6407

TREAS 7: ENHANCED IRS ENFORCEMENT PRESENCE

I. PPSSCC ISSUE AND SAVINGS

"Can enforcement presence be expanded to reduce taxpayer noncompliance and increase direct revenue from enforcement programs?"

According to the PPSSCC, increasing IRS' enforcement presence can yield an increased net revenue of $2.9 billion over 3 years.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

Taxpayer noncompliance has risen dramatically in recent years and threatens the credibility of our voluntary assessment tax system. According to IRS' most recent estimates, the total tax loss due to all types of noncompliance was approximately $90 billion for 1981, up from about $69 billion of tax loss for 1979.

The PPSSCC made six recommendations intended to reduce taxpayer noncompliance and increase revenue to the government by enhancing IRS' enforcement presence. These involve: (1) studying the effects of enforcement programs on taxpayer compliance; (2) adopting the concept of enhanced enforcement presence to supplant audit coverage in defining and describing IRS' compliance enforcement efforts; (3) requesting higher congressional appropriations to increase examination coverage; (4) streamlining the legal review process for criminal tax cases; (5) revising the document matching program criteria for selecting paper documents to be converted to magnetic media for automated processing; and (6) reallocating resources within the enforcement program.

The first four of the recommendations are similar to, and consistent with, recommendations GAO made in its reports on the need for further IRS research into noncompliance (GAO/GGD-82-34), and for streamlining the legal review of criminal tax cases (GAO/GGD-81-25). One of the remaining recommendations, involving modification of the document matching program, was intended to improve a situation that IRS has addressed more effectively by other means. At the time of the PPSSCC review, IRS was using only about 26 percent of the information documents it received in paper form. The PPSSCC would have IRS change its criteria for selecting which paper documents to process in order to increase revenues derived from the matching program. IRS has since made changes allowing it to process almost all paper information documents it receives. Concerning the final recommendation, on the reallocation of district examination resources to underreporter correspondence cases, GAO does not have sufficient information to evaluate its merits.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC assessment that four of its six recommendations on this issue could be implemented without legislative action; and that the other two, calling for additional IRS staffing and a reallocation of existing IRS staffing within the enforcement program, would need congressional approval through the appropriations process. GAO knows of no other barriers to implementing the six recommendations.

IRS has completed its modified implementation of two of the six PPSSCC recommendations. It has adopted for internal use a concept of enhanced enforcement presence, but will not periodically publicize information on the level of IRS enforcement presence, as the PPSSCC had suggested it should. IRS has also made changes to its legal operations that approximate the PPSSCC recommended changes, intended to streamline what had been a duplicative, three-tier legal review process for criminal tax cases. Concerning a third PPSSCC recommendation, the Commissioner of Internal Revenue has decided against reallocating funds within the compliance program, choosing instead to increase the number of underreporter contacts through program improvements. These improvements were made without diverting resources from the district examinations function.

IRS has taken some actions to implement two of the remaining three PPSSCC recommendations, but action on those is either not yet complete or has been discontinued. In the fiscal year 1984 appropriations hearings, IRS requested an additional 275 average positions for enforcement functions. The PPSSCC recommendation would have IRS request an additional 7,500 staff-years over a 3-year period. However, the Deputy Secretary of the Treasury's decisions on the fiscal year 1985 budget submission to the Office of Management and Budget ruled out adoption of this recommendation. In response to another PPSSCC recommendation, IRS has undertaken several efforts that should add to its body of research on the compliance effects of IRS' enforcement programs.

As noted in the previous section, IRS has taken steps which obviate the need for the remaining PPSSCC recommendation, involving modification of the document matching program. IRS has obtained optical character recognition equipment, which will allow it to process almost all of the paper information documents it receives. Thus, IRS no longer needs to consider improving its criteria for selecting the highest quality paper documents for processing. This improvement should increase the yield of the matching program beyond that projected by the PPSSCC's recommendation.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO has no basis to evaluate the PPSSCC's estimate of increased revenues for the six recommendations pertaining to this issue.

V. RELEVANT GAO REPORTS

GAO/GGD-82-34	Further Research Into Noncompliance Is Needed To Reduce Growing Tax Losses (July 23, 1982)
GAO/GGD-81-25	Streamlining Legal Review Of Criminal Tax Cases Would Strengthen Enforcement Of Federal Tax Laws (Apr. 29, 1981)

VI. GAO CONTACT

Johnny Finch 275-6407

ASSET 2: PROMPT COLLECTION/DEPOSIT

I. PPSSCC ISSUE AND SAVINGS

"Should the government implement steps to accelerate the collection and deposit of its receipts?

Cash accelerations of $6.8113 billion and reduced interest costs/outlays of $2.1454 billion have been identified for a total budget impact of $8.9567 billion."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The primary thrust of this issue is to adopt new techniques for accelerating the government's collections. GAO believes this issue is worthy of further consideration. One recommendation is to require state and local governments to remit Federal Insurance Contribution Act (FICA) payments with the same frequency as private industry and, thereby, accelerate such collections to Treasury. Because such collections are invested in government securities on behalf of the FICA trust fund, it appears that this recommendation would increase the trust fund's interest earnings.

Another recommendation involves implementation of a national lockbox system. Under such a system, government debtors would submit their payments to a specified postal box serviced by a bank. Because this type of system allows the collections to bypass the agencies and corresponding processing time, there is a potential for accelerating the collections to Treasury.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC report states that congressional action would be needed to implement the recommendation concerning state and local governments' remittances of FICA payments, and GAO agrees. Although the lockbox system could probably be implemented within Treasury's existing authority as PPSSCC indicates, GAO believes further study is needed. GAO recently completed a review which included examining the controls and other procedures governing lockbox operations. The information gathered indicates that three considerations should be made before greatly expanding lockbox operations. First, procedures need to be developed for ensuring that a lockbox is the most cost beneficial collection technique in a given situation. The PPSSCC cost estimate was based on one example in California, and the benefit-cost ratio may not be favorable in all situations. Secondly, adequate controls need to be implemented to ensure that the banks operating the lockboxes transfer all receipts when required.

Without such controls, Treasury does not have sufficient assurance that the funds are accelerated as desired. Finally, a determination should be made whether Treasury or the Federal Reserve Banks, rather than commercial banks, should operate the lockboxes. This alternative, which has not been adequately examined, would eliminate the reliance on banks to promptly transfer funds and provide greater control at a possibly lower overall cost to the government.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO does not have sufficient information available to determine the accuracy of the estimated savings computations.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

John F. Simonette 275-9490

ASSET 3: ELECTRONIC FUNDS TRANSFER (EFT) PRIORITIZED COLLECTIONS

I. PPSSCC ISSUE AND SAVINGS

"Should Treasury prioritize the use of Electronic Funds Transfer (EFT) for collections?

Cash accelerations of $6.464 billion and reduced interest costs/outlays of $1.581 billion have been identified for a total 3-year budget impact of $8.045 billion."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The basic objective of this issue is to implement or revise procedures to accelerate the flow of certain types of government receipts to the Treasury and, thereby, reduce the government's interest costs. GAO agrees with PPSSCC that expanded use of EFT offers the potential for accomplishing that objective. EFT, in this sense, involves a variety of means whereby a payor authorizes a commercial bank to transfer electronically a payment to a Federal Reserve Bank and, hence, to Treasury. Such a system is supposed to be much faster than having a payor mail a check to an agency for processing, and then having the agency deposit the check in a commercial bank so Treasury's account can ultimately be credited. Theoretically, Treasury's borrowing costs are reduced as collections are accelerated through EFT. Generally, GAO believes the PPSSCC recommendations have merit because of their potential for accelerating the government's cash flow but should be further studied prior to implementation to ensure banks and taxpayers would comply, as discussed in the following section.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with PPSSCC that Treasury has the authority to implement the majority of the recommendations. According to Treasury officials, Treasury has acted or plans to take action on most of the recommendations on this issue. For example:

--Liquor and tobacco companies that have annual excise tax payments of more than $5 million are now required to remit the taxes through EFT.

--An experiment is under way for collecting import duties from brokers so that no grace period is allowed for the payment.

--A pilot program will begin in January 1986 which will provide for automatic account withdrawal from payor's accounts on installment payments to the government.

PPSSCC also recommended that the Internal Revenue Service revise its regulations to include the use of the Federal Tax Deposit (FTD) system for balance-due payments required by the April 15 filing date for individual tax returns. Under the FTD system, corporate and certain other types of tax payments are transferred to the Treasury through the Federal Reserve network. On the other hand, the individual tax payments referred to by PPSSCC are typically sent to an IRS office for processing prior to being deposited in a bank. A Treasury official stated that the department is opposed to the recommendation because (1) there are substantial differences between individuals' payments and the types of payments that flow through the system, (2) it would create an additional burden on individuals to take their payments to a bank handling FTD transactions, and (3) banks are opposed to the recommendation. GAO agrees that some administrative problems, such as banks not accepting checks drawn on other banks, could develop, which would diminish the usefulness of this proposal if not resolved.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

In general, the PPSSCC report does not provide adequate information on how the estimated savings were calculated. Therefore, GAO cannot comment on the reasonableness of the stated amounts.

V. RELEVANT GAO REPORTS

GAO/FGMSD-78-50 Import Duties And Taxes: Improved Collection, Accounting, And Cash Management Needed (Aug. 21, 1978)

VI. GAO CONTACT

John F. Simonette 275-9490

TREAS 4: FUNCTIONAL OVERLAP WITHIN THE IRS

I. PPSSCC ISSUE AND SAVINGS

"Can the organizational effectiveness of the Internal Revenue Service (IRS) be improved and costs reduced by eliminating functional overlaps?"

Assuming 10 percent inflation, the PPSSCC estimated a 3-year savings of $354.2 million for this issue.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The effectiveness of IRS is greatly dependent on its organizational structure. The PPSSCC made four recommendations concerning this issue. The four recommendations would (1) change the organizational design of IRS, (2) eliminate the manual verification of computer-generated error reports, (3) greatly reduce key verification in the service centers, and (4) reduce the administrative workload of group managers.

Although GAO has addressed the way in which IRS is organized to deal with certain special compliance problems, such as illegal tax protesters, GAO has not reviewed the effectiveness of IRS' overall organization and has no basis to evaluate the merit of the recommendation to change IRS' organizational design. It should be noted, however, that IRS just underwent a major reorganization in early 1982. Therefore, it may be premature to make another comprehensive change before the effectiveness of the current reorganization is evaluated.

GAO disagrees with the PPSSCC on its recommendations to eliminate the manual verification of certain error reports and to reduce key verification in the service centers by 50 percent. In an October 1982 report, GAO recommended changes in the returns processing systems to (1) reduce the error corrections workload by improving the accuracy of the returns processing system and (2) reduce to some degree the amount of needed key verification by incorporating prompting features into IRS' direct data entry systems. However, GAO believes the manual verification process is vital to ensure that taxpayer and IRS errors are corrected. Therefore, GAO believes this process should be retained.

Likewise, GAO believes that reducing key verification by 50 percent, as recommended by the PPSSCC, could allow more errors in taxpayer identifying information to enter the automated data base, thus hampering IRS' compliance enforcement efforts.

GAO agrees with the PPSSCC recommendation that, to the extent practical, the administrative workload of group managers should be reduced.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that each of the four recommendations pertaining to this issue could be implemented without legislative action. Furthermore, GAO knows of no circumstances that affect the feasibility of implementation. IRS has proceeded cautiously in this area. Concerning the changes to IRS' organizational design recommended by the PPSSCC, IRS is now in the process of realigning some field offices and redistributing some workload as recommended, but has rejected most of the other aspects of the PPSSCC recommendation. IRS is still considering development of quantifiable standards of performance and elimination of certain executive level assistant positions.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO has no basis for an assessment of the revenue benefit that the PPSSCC associates with the recommendations.

V. RELEVANT GAO REPORTS

GAO/GGD-83-8 IRS Can Do More To Identify Tax Return Processing Problems And Reduce Processing Costs (Oct. 14, 1982)

VI. GAO CONTACT

Johnny Finch 275-6407

TREAS 12: COLLECTION OF RETAIL ALCOHOL OCCUPATIONAL TAX

I. PPSSCC ISSUE AND SAVINGS

"Would an enhanced presence by the Bureau of Alcohol, Tobacco, and Firearms (BATF) produce a net increase in the collection of special alcohol occupation taxes?"

The PPSSCC estimated that the government could collect an additional $24.8 million in occupational tax revenue in the first year, and $27.3 million and $30.0 million in the second and third years, respectively. Subtracting implementation costs of $0.2 million in the first year, the PPSSCC estimated a net revenue increase of $81.9 million over 3 years.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO agrees with the PPSSCC that nonpayment of occupational taxes by retailers of alcoholic beverages and spirits is a problem. Taxpayer compliance with alcohol-related occupational tax laws has dropped below acceptable levels, and the Bureau's enforcement is not adequate to promote higher levels of compliance.

GAO also sees merit in the PPSSCC's recommendations which would (1) prohibit wholesalers from selling alcoholic beverages to retailers who have no occupational tax stamp, and (2) have IRS match data which it has in separate data bases in an attempt to identify noncompliant retailers. Implementation of these two recommendations should produce a net increase in the collection of special alcohol occupation taxes. However, GAO's discussions with representatives of the wholesale alcohol industry and with officials of the Bureau indicate that there may be several hurdles to the implementation of the recommendations, and that the recommendations may need modification to be effectively implemented.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

Despite the PPSSCC's opinion that it could be done administratively, Bureau officials believe legislation is necessary for the Bureau to prohibit the sale of alcoholic beverages to retailers who have no occupational tax stamp. The Bureau's position seems reasonable to GAO. Bureau officials have drafted legislation to enable them to implement this recommendation and have transmitted that draft legislation to the Treasury Department's Assistant General Counsel for Administration and Legislation for his consideration. However, Bureau officials have expressed doubt to GAO that prohibiting noncompliant retailers from selling alcoholic beverages would significantly increase compliance with the

occupational tax stamp requirement without aggressive enforcement by Bureau agents' visits to wholesalers. Such visits are currently limited because of staffing constraints.

GAO's discussions with industry representatives confirmed that they are opposed to a prohibition on sales to noncompliant retailers. They expressed an opinion that businessmen in the private sector should not be put in a position of enforcing a federal tax. They also stated that it would not always be easy for wholesalers to determine if the alcohol occupation tax has been paid because IRS is not always timely in issuing occupational tax stamps.

A further enforcement problem for Bureau officials is finding wholesaler incentives or penalties which can be used effectively to prevent noncompliant retailers from purchasing in the 19 "controlled" states where a state agency is, in effect, the wholesaler.

GAO also has some reservations about the details for implementing the PPSSCC's other recommendation. The PPSSCC would have IRS perform a computer match of certain Principal Industrial Activity (PIA) Codes, shown on income tax returns, with occupational tax payment data; the goal would be to identify retailers of alcoholic beverages who have failed to comply with the occupational tax laws. The recommendation calls for matching the occupational tax payment file with identifying information from tax returns containing either of two PIA codes.

While there is little doubt that any business establishment listing either of those PIA codes on its income tax return would also be liable for the occupational tax, GAO believes that many noncompliant establishments would not be detected because of the way PIA codes are assigned. The codes identify the principal business activity which, in many cases, may not be the retail sale of alcoholic beverages. For example, a grocery store that sells alcoholic beverages would be assigned a PIA code that identifies it as a grocery store. GAO's four-state sample of retail alcohol occupational taxes identified an additional 14 PIA codes that GAO believes should be considered in the computer match. A computer match using the 16 PIA codes (the two identified by the PPSSCC plus the additional 14 identified by GAO) should detect a majority of the noncompliant retailers. If this PPSSCC recommendation is implemented, it should be broadened to include 16 rather than 2 codes.

Bureau officials have made initial contact with Internal Revenue Service officials to explore the feasibility and desirability of implementing this recommendation. Bureau

officials have tentatively concluded that it may not represent the best method of improving compliance. They believe that if their draft legislation involving wholesalers in the compliance process should be enacted, this computer matching effort would probably not be necessary.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO believes the savings potential is overstated for two reasons. First, the PPSSCC's estimates are based on a noncompliance rate of 60 percent nationwide, which GAO believes to be too high: GAO's four-state sample indicated a noncompliance rate of 40 percent. GAO has no evidence to indicate that noncompliance is any higher in the states not included in its sample. Second, the PPSSCC's estimates use an inflation factor of 10 percent for the second and third years. Since the taxes are a flat amount (either $24 or $54 per year, per establishment), there does not appear to be a basis for increasing subsequent years' estimated revenues.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

Johnny Finch 275-6407

TREAS 6: VOLUNTEER IRS TAXPAYER SERVICE

I. PPSSCC ISSUE AND SAVINGS

"Can certain elements of taxpayer service be retained through the use of volunteer professionals?"

The PPSSCC made no estimate of savings for this issue but stated that the use of volunteers could reinstate the telephone and walk-in service that had been curtailed due to budget cuts.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

Because the nation's tax laws have evolved into a complicated array of exemptions, exclusions, deductions, and credits, taxpayers often need assistance in understanding the tax laws and in preparing their returns. For over a decade, IRS has had a formal program for assisting taxpayers and, until recently, has sought to expand and improve that program. In an April 1984 report, GAO discussed IRS' administration of its taxpayer assistance program and the importance of IRS' taxpayer assistance activities to the nation's self-assessment tax system. That report provided Congress with some of the information it needs to decide the level of funding for taxpayer assistance.

The PPSSCC recommendation concerning this issue would have the Commissioner of Internal Revenue establish a corps of volunteer professionals to perform some taxpayer assistance activities. GAO does not doubt that, to the extent volunteers could replace IRS employees, there would be a cost savings to IRS. However, this PPSSCC recommendation is directed at a situation that has since changed. At the time of the PPSSCC review, IRS had decided to revise and reduce its taxpayer assistance program due to escalating federal budget deficits and the administration's efforts to reduce federal spending. In its budget submissions, the administration proposed to reduce IRS' taxpayer assistance program in fiscal years 1983 and 1984. However, Congress reacted unfavorably to those proposals and directed IRS to operate taxpayer assistance programs at prior years' staffing and funding levels. Thus, the original impetus for the PPSSCC recommendation no longer exists.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that legislative action would be necessary for effective implementation of this recommendation. The Commissioner of Internal Revenue requested an advisory group to consider the feasibility of implementing this recommendation. The advisory group

identified significant implementation problems, including the disclosure of tax information, the availability of volunteers, the scheduling of volunteers, and the IRS' responsibility in managing volunteers in IRS offices. The consensus among advisory group members was that the proposal to use volunteers as telephone and walk-in assistors should not be implemented by IRS. Rather, the advisory group determined that retired professionals could best be used to enhance the taxpayer education efforts currently carried out by IRS outside of its offices. These include coordinator, instructor, and assistor roles in the Volunteer Income Tax Assistance (VITA), Tax Counseling for the Elderly (TCE), Outreach, Understanding Taxes, and Small Business Workshop Programs. In line with the advisory group's findings, IRS has not taken steps to implement the PPSSCC recommendation.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

No savings were identified by the PPSSCC for the recommendation.

V. RELEVANT GAO REPORTS

GAO/GGD-84-13 Need To Better Assess Consequences Before Reducing Taxpayer Assistance (Apr. 5, 1984)

VI. GAO CONTACT

Johnny Finch 275-6407

I. PPSSCC ISSUE AND SAVINGS

Can the Internal Revenue Service (IRS) reduce the tax gap (taxes due but not reported) by fully exploiting modern automated data processing (ADP) technology?

The PPSSCC indicated that total annual benefits could be substantial. However, no specific estimates of potential savings were presented.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO agrees in principle with the issue. It believes that two of the four associated recommendations discussed below are generally without merit. GAO does not have a basis for assessing the relative merits of the two remaining recommendations.

GAO believes that IRS needs to make significant improvements in the area of ADP management before it can realistically address this issue. GAO has reported that IRS does not have an adequate planning process. It also believes that a strong planning process is a critical success factor in assessing, acquiring, and implementing modern ADP technology on the scale appropriate for IRS. In addition, GAO believes IRS' highly decentralized ADP organization may not be appropriate to effectively manage its ADP resources.

GAO does not support the recommendation to accelerate major ADP initiatives in IRS. It believes IRS should follow a carefully considered and planned approach to developing and implementing new ADP systems. On the basis of its current work, GAO believes an accelerated schedule could significantly increase the risk of a non-cost-effective infusion of modern ADP technology. Three recent projects demonstrate IRS' past performance and contribute to GAO's concern: (1) the service center replacement system, (2) the distributed input system, and (3) the automated collection system. In all three projects, IRS has experienced procurement, performance, and/or system design problems in its efforts to provide newer technology to its users. Another consideration is how to control an accelerated schedule with a highly decentralized ADP organization structure. GAO believes that a centralized ADP organization structure can offer management greater control over ADP resources.

GAO does not support the recommendation requiring Treasury's Office of Computer Science to perform cost/benefit analyses of IRS' ADP initiatives. GAO has reported that the office was ineffective. In addition, IRS offices are doing such analyses, and GAO believes a duplication of effort should be avoided. It believes Treasury's role

should be to review and approve IRS' cost/benefit analyses and that Treasury's review responsibility should lie with its new Assistant Secretary for Electronic Systems and Information Technology.

GAO does not have sufficient information to assess the merit of the recommendation that IRS use the most modern technology on a priority basis. GAO has not specifically studied the application of state-of-the-art, "most modern" technology to IRS requirements. However, it would caution that state-of-the-art technology is not necessarily cost-effective until it is proven suitable.

GAO also does not have sufficient information to assess the merit of the recommendation that IRS' tax processing system redesign should start in fiscal year 1987.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that implementation of this issue can be done under the existing authority of the executive branch. However, it believes that the Congress would need to approve any funds to implement the recommendations. At this time, GAO does not have sufficient information to comment on the feasibility or the status of the four recommendations associated with this issue.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

No specific savings estimate was developed by the PPSSCC.

V. RELEVANT GAO REPORTS

GAO/GGD-79-48	IRS Can Better Plan for and Control Its ADP Resources (June 18, 1979)
GAO/GGD-82-9	The Treasury Department and Its Bureaus Can Better Plan for and Control Computer Resources (Feb. 22, 1982)
GAO/GGD-83-103	Computer Management at IRS: Present and Planned (Sept. 1, 1983)
GAO Publication	Questions Designed to Aid Managers and Auditors in Assessing the ADP Planning Process (Sept. 30, 1982)

VI. GAO CONTACT

James Watts 275-3455

EX 2: TAX-EXEMPT BONDS

I. PPSSCC ISSUE AND SAVINGS

This issue was extrapolated from a prior PPSSCC report on the Health Care Financing Administration. Recommendation HHS-HCFA 5-3 stated that "the Administration should propose legislation requiring that tax exempt hospital bonds be 'general obligation' issues of the governmental unit issuing them rather than revenue bonds." Although both types of bonds are tax exempt, general obligation bonds are usually subject to state debt limitations and in most cases require voter approval. For revenue bonds, there are few, if any, statutory debt limitations and few jurisdictions require voter approval. Thus, the PPSSCC reasoned that the total volume of tax exempt hospital bonds would be reduced if they were required to be general obligation issues of the state. This extrapolated issue proposes a general reduction in the volume of tax exempt bonds, including tax exempt hospital bonds.

The PPSSCC calculated savings from issue EX 2 of $4.5 billion over a three year period.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATION

Based on previous GAO work, GAO finds merit in raising the issue of whether steps should be taken to limit the use of tax exempt bonds. GAO has documented the sharp increase in bond volume -- from $65 billion in 1979 to $122 billion in 1982. GAO has also noted that the composition of tax exempt bonds has changed dramatically, from predominately general obligation bonds (65.5% share in 1970) to predominately revenue bonds (73.0% share in 1982). General obligation bonds traditionally finance projects in areas such as water & sewer, public power, transportation, and education. While a number of factors such as structural changes in the bond market, voter disapproval of new bond issues, and high interest rates, contributed to the relative decline in general obligation bonds, GAO found evidence to suggest that the increased volume of revenue bonds also may have contributed to this reduction in general obligation bonds.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

Although states and localities have authority to limit the use of of revenue bonds, few have done so. Thus implementation of the PPSSCC recommendation would most likely require Congressional action. The Department of the Treasury's current tax reform package contains proposals to limit the purposes for which tax exemption on State and local obligations may be allowed. The Treasury proposal is generally consistent with the PPSSCC recommendation.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC estimated total three-year savings from issue EX 2 would be $4.5 billion. This estimate is based on various assumptions. One such assumption was that only 30% of the planned tax exempt bonds will be issued; another assumption was that investors will invest all of the money they would otherwise have used to purchase tax exempt bonds in taxable assets. This second assumption may lead to an overestimate of the savings because it ignores the possibility that many investors will find other investment tax shelters. Thus GAO views the PPSSCC estimated savings as tenuous. CBO, while acknowledging certain difficulties in making savings estimates, provided a 3 year savings estimate of $3.2 billion for the case of limiting tax exemptions to only general obligation bonds.

V. RELEVANT GAO REPORTS

GAO/PAD-83-46	Trends and Changes in the Municipal Bond Market as They Relate to Financing State and Local Public Infrastructure (September 12, 1983)
GAO/RCED-83-145	The Costs and Benefits of Single-Family Mortgage Revenue Bonds: Preliminary Report (April 1983)

VI. GAO CONTACT

James Bothwell 275-4083

BANK 38: TAXATION OF FARM CREDIT SYSTEM

I. PPSSCC ISSUE AND SAVINGS

"Can the present federal tax exemption for certain entities of the Farm Credit System (FCS) be removed?"

The PPSSCC estimated new revenues could total $658.1 million over 3 years.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC recommended that the Federal Land Banks, the Federal Land Bank Associations, and the Federal Intermediate Credit Banks be taxed.

GAO's 1980 report to Congress noted the inconsistent tax treatment of income for the Farm Credit System. The Federal Land Banks, the Federal Land Bank Associations, and the Federal Intermediate Credit Banks are not taxed. Banks for Cooperatives and Production Credit Associations are taxed. GAO noted the tax discrepancy to ensure that Congress, in the process of deciding whether to combine the banks as GAO recommended, would also consider their tax-exempt status. GAO also pointed out that Congress provided the FCS with competitive advantages to ensure the success of a nationwide system that would provide an adequate flow of credit to farmers, ranchers, and fishermen in all economic conditions. The tax-exempt status of these institutions is clearly an FCS advantage.

Taxing these institutions could increase the costs of funds to borrowers served by the FCS if nothing were done to reduce the taxes due. However, GAO believes these institutions would take action to reduce their profits. A likely action would be to charge borrowers less interest, thereby offsetting excess earnings. Officials of the Farm Credit Administration (FCA) believe that tax avoidance actions taken by FCS institutions may reduce FCS's ability to raise capital in the bond market if FCS cannot convince investors that its reduced profits are the result of tax avoidance rather than an inability to generate profit.

Relative to the 1970s, the farm economy in the 1980s, in general, has been depressed. The FCS has used its strong financial position, built up during the 1970s, to maintain level program activity. If the FCS were taxed, not only would its accumulated earnings be less,

its incentive to accumulate financial strength would be less and this counter-cyclical credit tool could weaken. GAO believes that Congress should consider this recommendation only if it believes that the extent of the subsidy provided farmers, ranchers, and fishermen by continuing the tax-exemption exceeds a level it believes appropriate.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that the authority to change the tax status of the Federal Land Banks, the Federal Land Bank Associations, and the Federal Intermediate Credit Banks resides in Congress. The FCS does not support, nor is it going to initiate, legislation to change the tax-exempt status of these institutions. The administration is not currently considering recommending changes in the tax status of these institutions.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC estimate of savings assumed that the entities would maintain their state and local tax exemption, income would be distributed equally among entities, existing investment policies by the bank would not change, and the present distribution pattern of earnings would continue.

GAO believes that all of the assumptions made by the PPSSCC are questionable. But the unstated assumption that the institutions would do nothing to reduce their tax liability is clearly unfounded. GAO believes that, if these institutions were taxed, they would take actions to reduce their tax liability. The most logical step would be to reduce the interest rate charged to borrowers rather than rebate excess earnings at the end of the year, as is currently done. Regardless of the actions, assuming that these currently tax-exempt institutions are able to reduce taxes to the extent that the FCS taxable institutions have, a more realistic figure may be calculated. Data available to GAO indicates that Production Credit Associations pay taxes of about 14 percent of taxable income and Banks for Cooperatives pay taxes of about 1 percent of taxable income. Assuming that the Federal Land Banks, the Federal Land Bank Associations, and the Federal

Intermediate Credit Banks were to achieve a similar tax liability of 14 percent of taxable income or 1 percent of taxable income, the estimated savings would be $200.3 million and $14.3 million, respectively, over 3 years. GAO has no way of estimating additional revenue that may be generated from increased taxes paid by farmers and fishermen, whose taxable income would increase if they paid less interest on borrowed funds.

V. RELEVANT GAO REPORTS

GAO/CED-80-12 The Farm Credit System: Some Opportunities for Improvement (Jan. 25, 1980)

VI. GAO CONTACT

Craig Simmons 275-8678

BANK 13: INCREASE TAX RATE AND INSTITUTE EXPERIENCE RATINGS FOR RAILROAD UNEMPLOYMENT PREMIUMS

I. PPSSCC ISSUE AND SAVINGS

"Should the tax rate for Railroad Unemployment and Sickness Insurance (RUSI) be increased to adequately fund the system? Would an experience-based system for future premiums involve the financial health and equitable application of the system?"

The PPSSCC recommended increasing the effective tax rate to adequately fund current claims and liquidate the existing deficit over a minimum five-year period. It recommended that the tax increase be implemented by raising the taxable wage from $4,800 to $9,500. The PPSSCC estimates this recommendation would lead to $546 million in additional revenues over a 3-year period.

The PPSSCC also recommended the adoption of an experience rating system of taxes to provide for a more equitable application of the system within the industry and to provide incentives to reduce the overall cost of the system.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO agrees that unemployment benefits should be adequately funded. Action taken by the Congress in 1983 was directed toward that goal and meets the primary objective of the PPSSCC's recommendation. In early 1983, additional revenues were needed to meet existing claims and to liquidate the RUSI deficit and repay the retirement account monies borrowed to pay USI claims. Increasing taxes and attempting to control future costs were reasonable objectives. Congress authorized the former in enacting the Railroad Retirement Solvency Act of 1983 and a study group authorized by the act (the Railroad Unemployment Compensation Committee) subsequently endorsed an experience rating system as a way to control future costs.

The Solvency Act increased the monthly amount of wages against which the unemployment tax could be levied from $400 to $600, an annual equivalent of $7,200. The Act also authorized a temporary loan repayment tax on the first $7,000 of an employee's wages to be used to repay loans the railroad retirement account has made to the railroad unemployment insurance account.

The Railroad Unemployment Compensation Committee also made recommendations concerning increases in the effective tax rate.

The PPSSCC states that, under the present system, rail employers have no incentive to attempt to minimize unemployment and thus unemployment insurance costs. An experience-based rating system as recommended by PPSSCC and the Railroad Unemployment Compensation Committee would permit rail employers to challenge unemployment claims--a recourse they presently do not have. This will be included in the legislation that will be jointly drafted by the Committee and the Board. GAO has not taken a position on the need for an experience rating system.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

Both of the PPSSCC's recommendations are feasible. A tax rate change has been enacted and experience rating is being considered. Any additional changes to the tax rate or the adoption of an experience-based rating system would require legislative action by the Congress. Legislation is likely to be introduced in early 1985 which would both change the unemployment tax rate and require the use of an experience-based rating system.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC estimates that $546 million in additional revenues would be realized over a 3-year period if its recommendation for increasing the effective tax rate were adopted. These estimates are considerably higher than Railroad Retirement Board and CBO estimates, partly because PPSSCC proposed a higher annual wage tax base. The Railroad Retirement Board and CBO estimate that $186 million and $181 million respectively would be generated in additional revenues over a 3-year period beause of the tax rate reforms which were enacted in the Railroad Retirement Solvency Act of 1983.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

Joseph Delfico 275-6193

BANK 23: TAXING OF CREDIT UNIONS

I. PPSSCC ISSUE AND SAVINGS

Should credit unions be taxed?

The PPSSCC projected potential revenue of $379 million over 3 years.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

Since this is a complex matter--more complex than the treatment given by the PPSSCC--GAO can take no position on this issue without much further study.

The PPSSCC believes that the tax exemption given to credit unions should be ended because they are beginning to conduct lines-of-business similar to commercial banks and savings and loans, both of which are taxed. The PPSSCC contends that original credit unions were small and their memberships were comprised of persons with close bonds. Now, however, there are some large ones with very broad memberships. Thus, since they are competing with other financial institutions, they should be taxed similarly.

National Credit Union Administration (NCUA) officials disagree with the recommendation. The officials point out that tax exemption is based on the nature of credit unions' organizations: they are not-for-profit cooperatives. Theoretically, all earnings not absorbed by costs of operations are distributed to members as dividends, which are taxable to the individuals. Presuming that only undistributed earnings would be taxed, credit unions, upon losing the exemptions, would simply distribute all earnings to their members.

There are a number of arguments against the recommendation to end the tax exemption. Although credit unions may be growing, as of December 31, 1983, 99.5 percent of all federal credit unions still had assets of less than $100 million, and 68 percent had assets of less than $2 million. By commercial bank standards, those institutions are very small.

Moreover, both federal- and state-chartered credit unions had deposits totaling $75.5 billion, while commercial bank deposits totaled $1.5 trillion, and savings institutions totaled $618 billion. Thus, overall, credit unions are not a serious competitive threat to the taxed competitors. Indeed, GAO is unaware of any major protestations by banks or savings and loans that credit unions enjoy an unfair competitive advantage.

However, a business practice test might conclude that at least some credit unions should be taxed. Some are very large. The 59 federal credit unions with $100 million or more in assets (out of a total of 10,962 federal credit unions) hold about 22 percent of all federal credit union assets. Also, some credit unions are broadening their membership bases. There is tax legislative history pertaining to the mutual savings industry that demonstrates that when some large mutual companies stopped "behaving" like true cooperatives, they were taxed. Presumably, if a body of evidence could show that credit unions have stopped behaving like cooperatives--including complex financial analyses not performed by the PPSSCC--then a case for taxation might be made.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC concluded that legislative changes would be needed to implement the recommendaton, and GAO agrees. Adopting the recommendation would require a change to federal tax laws (sects. 501(c)(1) and 501(c)(14) of the Tax Code). Such a change is technically feasible, given the changes to the insurance industry tax structure.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

Since no figures were presented to back the PPSSCC estimate, GAO could not analyze them.

V. RELEVANT GAO REPORTS

GAO/PAD-81-1 Billions of Dollars Are Involved in Taxation of the Life Insurance Industry--Some Corrections in the Law Are Needed (Sept. 17, 1981)

VI. GAO CONTACT

Craig Simmons 275-8678

HUD 10 and BANK 37: INCREASES IN THE GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA) GUARANTEE AND OTHER FEES

I. PPSSCC ISSUE AND SAVINGS

Should the Government National Mortgage Association (GNMA) increase its fees, particularly the fee it charges mortgage servicers for GNMA's guarantee of timely payment of principal and interest?

PPSSCC made conflicting recommendations concerning GNMA fees. In HUD 10, PPSSCC recommended that the guarantee fee be increased from 6 to 10 basis points, and estimated that this change could generate about $21.6 million over a three-year period. However, in BANK 37, PPSSCC recommended no fee change and, therefore, no savings were claimed.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

In HUD 10, PPSSCC stated that the fee GNMA charges mortgage servicers for its guarantee of timely payment of principal and interest is too low. It believes that the fee should be raised from the current 6 basis points to 10 basis points--a basis point is equal to 1/100th of a percent age point--to bring the fee more in line with fees charged servicers of non-GNMA mortgage portfolios and, at the same time, to generate additional revenues for GNMA.

GAO does not believe an increase in the fee is justified or necessary in that the fee currently charged mortgage servicers is already adequate to operate the program on a financially-sound basis. In fiscal year 1983, GNMA took in nearly $90 million in guarantee fees and paid out only $70,000 in claims. Further, since the program's inception in 1970, GNMA has received over $400 million in fees and paid out claims totaling less than $12 million. To increase the fee would go far beyond what is needed for an actuarially-sound program.

In BANK 37, PPSSCC concluded that raising the fee is not warranted and would represent an improper transfer payment from the private sector to Government.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The proposal to increase the fee charged mortgage servicers could be implemented under existing agency authority and would not require legislative changes. Implementation of the proposal, however, would likely draw considerable criticism from the mortgage industry.

To date, GNMA has not acted on the proposal to raise the fee.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

In calculating the $21.6 million savings estimate, PPSSCC applied the fee increase to the amount of mortgage-backed securities expected to be issued by GNMA in future years. GAO noted that consideration was not given to normal amortization and prepayments on those securities. Since fees are paid monthly on the outstanding balances, the failure to net out amortizations and prepayments resulted in inflated savings estimates.

GAO also believes that PPSSCC significantly underestimated the amount of securities to be issued, and, as a result, the additional revenues that could be expected to result from increased fees. Specifically, PPSSCC assumed that $12 billion in mortgage-backed securities would be issued in each of the years 1983 through 1985. The GNMA budget for fiscal year 1985, however, shows that GNMA actually issued over $45 billion of securities in fiscal year 1983 and expected to issue $40 billion and $42 billion in fiscal years 1984 and 1985, respectively.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

John Luke 275-6111

SBA 9: USER'S FEE FOR SMALL BUSINESS INVESTMENT COMPANIES

I. PPSSCC ISSUE AND SAVINGS

Can the Small Business Administration (SBA) increase revenues in the Small Business Investment Company (SBIC) and Minority Enterprise SBIC (MESBIC) programs by charging a 1 percent user fee on borrowings?

PPSSCC estimates revenues resulting from a 1 percent user fee at $4 million over 3 years.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

SBA incurs a variety of administrative expenses in connection with the processing of applications for the purchase or guaranty of debentures, with the sale of debentures, and with the subsequent servicing of debentures. The PPSSCC's recommendation that SBA charge SBIC's and MESBIC's a user fee on borrowings is consistent with established practices in the private sector and in other SBA programs. GAO agrees that establishing a fee to be charged to the SBIC's and MESBIC's that use SBA debentures would result in generating revenue that would help to offset SBA's administrative expenses. Although user fees are not universally required of SBA program participants, SBA does charge fees in some of its financial assistance programs including the Section 503 Development Company Loan Program, the SBA Guaranteed Bank Loan Program, and in the Surety Bond Guarantee Program.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

SBA has the authority to impose, at its discretion, user fees in the SBIC and MESBIC programs. This authority is contained in Section 303(b) of the Small Business Act of 1958, as amended, which authorizes SBA to charge SBIC's and MESBIC's a fee for borrowing to be applied toward covering costs of the program that the Administration may determine to be consistent with its purposes.

GAO believes the recommendation is feasible and that its implementation will not adversely impact either the SBIC or MESBIC programs. The user fee is a one-time fee which, over the life of the debenture, will increase the cost of borrowing by approximately 1/4 of one percent per year. GAO does not consider this increase to be significant to individual SBIC's or MESBIC's.

On April 13, 1984, SBA published a notice of proposed rulemaking in the Federal Register to provide for the imposition of a user fee in the SBIC and MESBIC programs. Only about 2 percent of the SBIC's and MESBIC's commented

on the user fee proposal and they raised only minor objections. As of October 1984, SBA had drafted a final regulation that is consistent with the PPSSCC's recommendation.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO believes that the approach and assumptions used by PPSSCC to estimate revenues by establishing a user fee are valid. The estimate is based on applying a 1 percent fee to funds budgeted to SBIC's and MESBIC's in fiscal year 1983. Rather than establish a flat 1 percent fee, SBA's regulations propose that the 1 percent fee be adjusted either slightly upward or downward depending on the maturity of the debentures. SBA's proposal should have similar net revenue result as the PPSSCC recommendation.

PPSSCC's recommended 1 percent fee was intended to generate enough revenue to cover the administrative costs incurred by SBA. However, because of the interchangeability of certain activities involved with administering the and MESBIC programs, it is not possible to specifically account for total administrative costs. SBA believes that the revenues generated through a 1 percent user's fee will be in line with SBA's expenses in administering the program.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

John Luke 275-6111

USER 1: USER CHARGES PROGRAM MANAGEMENT

I. PPSSCC ISSUE AND SAVINGS

Can the Federal Government increase revenues and better manage user charge programs though a clarification of policy on user charges and the implementation of a centralized, business-like organizational structure, patterned after the product or service planning function found in the private sector? Is a high-level policy team needed to determine how legislation, agency instruction, and reporting need to be changed? Are incentives required for managers and agencies to encourage both collection and reporting of user charges?

This issue involves setting general user charge policies and designing specific management procedures to implement those policies. As such, it does not directly produce cost savings or additional revenues. However, PPSSCC believes that additional revenues will result if these policies and procedures are adopted by federal agencies and, under associated PPSSCC issues, makes recommendations and estimates concerning specific user charge areas.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

PPSSCC made a number of recommendations to improve the management of user charge programs and increase user charge revenues. GAO agrees with one recommendation, disagrees with another, and has no basis for an opinion on several others. GAO agrees with PPSSCC on the need for an overall review of federal user charge policies. In a previous review of federal user charges, GAO found that pricing practices are inconsistent both within and across agencies. However, GAO does not agree with one of the specific recommendations of the PPSSCC. The PPSSCC recommended the establishment of revolving funds for agencies providing user-financed services. GAO's general policy is to oppose financial arrangements such as revolving funds because of the possible loss of congressional oversight and control that may accompany them. GAO has no basis for opinion on the other specific PPSSCC recommendations, including: the establishment of a different set of criteria for personnel ceilings and employment freezes as they relate to user charge programs; the reinstitution of a full reporting mechanism concerning the management performance of user charge programs; the establishment of a separate and centralized organization within agencies to manage the business of user charges; the establishment of a user charge planning function in the Executive Office of the President; and the establishment of a policy review team to confer with OMB in reissuing Circulars No. A-25 and, if necessary, No. A-76, pertaining to agency use of user charges.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that the President has the authority to initiate a review of user charge policies and practices within executive agencies with the objective either of modifying policies, where the executive has the authority to do so, or of developing legislative recommendations, where the executive does not now have such authority. GAO also agrees that the President may appoint a panel to assist him in that review. However, in a previous report, GAO recommended congressional involvement in such a review since many of the policy changes, and some of the specific management provisions that are likely to emerge from the review, or are already proposed by PPSSCC, cannot be unilaterally implemented by the President without congressional involvement and action. GAO does not know of any actions yet taken to establish a panel to conduct a systematic review of federal user charge policies.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

PPSSCC did not make any estimates of the cost savings or additional revenues that would result from this particular issue. Increases in revenues may result as many agencies modify their policies and procedures in accordance with the review findings. GAO is conducting separate analyses of the PPSSCC estimates of additional revenues that would result from the specific user charges that PPSSCC recommended.

V. RELEVANT GAO REPORTS

GAO/PAD-80-25 The Congress Should Consider Exploring Opportunities to Expand and Improve the Application of User Charges by Federal Agencies (March 28, 1980)

VI. GAO CONTACT

James Bothwell 275-4083

AG 20: USER FEES IN THE AGRICULTURAL COOPERATIVE SERVICE

I. PPSSCC ISSUE AND SAVINGS

According to the PPSSCC,

"The Agricultural Cooperative Service (ACS) should assess user fees for publications and for technical assistance services performed for agricultural cooperatives. By charging user fees for publications and for technical assistance services rendered to existing cooperatives, appropriations could be reduced by * * * $4.9 million * * * [over] three years."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

ACS is a U.S. Department of Agriculture (USDA) agency. Its basic functions include providing technical assistance to existing farmer-owned cooperatives; giving assistance and technical support to newly emerging cooperative associations; and collecting and disseminating statistics on changes and trends in cooperative organization, membership, structure, and operations. The PPSSCC said that in 1981 ACS was involved in 95 formal technical assistance projects and that it maintains and distributes over 100 research and educational publications concerning cooperatives.

GAO supports the assessment of user fees for services and agency publications as appropriate under OMB Circular A-25. GAO has not made a study of whether the types of services and publications provided by ACS should be covered by a user charge system. In a March 1980 report (GAO/PAD-80-25, 3/28/80), however, GAO included government publications in a list of special benefits for which, according to GAO, it is appropriate to charge. Also, GAO has found that in other USDA agencies, user fees are appropriate and a cost-saving measure.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO has not looked into the question of whether the types of services and publications provided by ACS should be covered by a user fee system. USDA's implementation status report dated October 3, 1984, stated that user fees for publications would be implemented once the congressional Joint Committee on Printing and the Government Printing Office permit USDA to sell publications. It also said that a plan for implementing technical assistance user charges had been prepared and was under review.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC's 3-year savings estimate for implementing ACS user fees is $4.9 million. According to USDA's implementation status report, USDA estimated $900,000 in potential savings for 3 years. Because GAO has not looked into the matter of ACS user fees, it cannot assess the reasonableness of either of the savings estimates.

V. RELEVANT GAO REPORTS

GAO/CED-81-49	Department of Agriculture Should Have More Authority to Assess User Charges (Apr. 16, 1981)
GAO/PAD-80-25	The Congress Should Consider Exploring Opportunities to Expand and Improve the Application of User Charges by Federal Agencies (Mar. 28, 1980)

VI. GAO CONTACT

Brian Crowley 275-5138

USER 11: INSPECTION AND GRADING: DEPARTMENT OF AGRICULTURE, AGRICULTURAL MARKETING SERVICE

I. PPSSCC ISSUE AND SAVINGS

The PPSSCC stated the issue as follows:

"Can the Agricultural Marketing Service (AMS) recover more of its cost of providing special services by applying user fees to additional services not currently covered in the existing fee schedules?"

According to the PPSSCC, increased user fee revenues of $29.4 million could be realized over 3 years.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO endorsed the principle of charging identifiable beneficiaries for the full cost of special U.S. Department of Agriculture (USDA) services in a 1981 report (GAO/CED-81-49, 4/16/81). In that same report, GAO recommended or endorsed instituting new fees, or increasing existing fees, for a number of specific services, including the following services that the PPSSCC also covered: cotton grading (classing), warehouse examinations, printed market news reports, and plant variety protection certificates. GAO has not reviewed the appropriateness of user fees for marketing orders/agreements, another of the PPSSCC's recommendations.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35, 8/13/81) set annual limits on the amount of fees that can be collected for cotton grading and cotton warehouse examination services. Legislative action would be needed to increase fees for these services. Amendments to program authorizing legislation (the Tobacco Inspection Act and the Cotton Statistics and Estimates Act) would be needed to delete provisions requiring free cotton and tobacco market information. Fees for plant variety protection certificates could be implemented by USDA administratively under authority granted by the general User Charge Statute.

According to USDA, as of September 28, 1984, it had not evaluated the PPSSCC's recommendations.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

Readily available budget data are not in sufficient detail to determine the difference between current user fee revenues and USDA's costs for providing the specific

services included in the PPSSCC's recommendations. This information would be needed to analyze the PPSSCC's estimated savings.

V. RELEVANT GAO REPORTS

GAO/CED-81-49	Department of Agriculture Should Have More Authority to Assess User Charges (Apr. 16, 1981)
GAO/PAD-80-25	The Congress Should Consider Exploring Opportunities to Expand and Improve the Application of User Charges by Federal Agencies (Mar. 28, 1980)
GAO/CED-77-105	The Department of Agriculture Should Be Authorized to Charge for Cotton Classing and Tobacco Grading Services (Aug. 2, 1977)

VI. GAO CONTACT

Brian Crowley 275-5138

USER 12: INSPECTION AND GRADING: DEPARTMENT OF AGRICULTURE, FEDERAL GRAIN INSPECTION SERVICE

I. PPSSCC ISSUE AND SAVINGS

The PPSSCC stated the issue as follows:

"Is the Federal Grain Inspection Service (FGIS) recovering its costs of providing inspection and weighing services from those receiving the services?"

According to the PPSSCC, total additional revenues of $6.1 million for 3 years will be needed to cover estimated deficits. Accordingly, the PPSSCC recommended that fees should be revised annually to recover 100 percent of costs.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATION

FGIS, an agency of the U.S. Department of Agriculture (USDA), provides inspection and weighing services for a fee to grain merchandisers, both directly (for exported grain) and indirectly, through supervision of authorized state and private agencies (for domestically sold grain). These services are designed to facilitate orderly marketing by independently establishing and certifying the quality (grade) and weight of grain. FGIS' 1983 estimated costs for these services ($36.3 million) exceeded estimated revenues ($34.3 million) by $2 million.

GAO endorsed the principle of charging identifiable beneficiaries for the full cost of special USDA services in a 1981 report (GAO/CED-81-49, 4/16/81). In that report, GAO recommended that the Congress amend the legislative authority for grain inspection and weighing services (the U.S. Grain Standards Act) to delete provisions that either (1) required appropriations funding for certain costs or (2) limited the use of user charges. The Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35, 8/13/81) subsequently amended the U.S. Grain Standards Act along the lines GAO recommended.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

USDA can implement the recommended changes administratively, within existing legislative authority, by adjusting its fee schedules for these services. According to USDA, as of September 28, 1984, it had not evaluated the PPSSCC's recommendation.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

Readily available budget data do not identify the extent, if any, to which costs currently exceed fee revenues for these specific services. This information would be needed to analyze the PPSSCC's estimated savings.

V. RELEVANT GAO REPORTS

GAO/CED-81-49	Department of Agriculture Should Have More Authority to Assess User Charges (Apr. 16, 1981)
GAO/PAD-80-25	The Congress Should Consider Exploring Opportunities to Expand and Improve the Application of User Charges by Federal Agencies (Mar. 28, 1980)

VI. GAO CONTACT

Brian Crowley 275-5138

AG 8: COLLECT CREDIT REPORT FEES

I. PPSSCC ISSUE AND SAVINGS

According to the PPSSCC,

"The Farmers Home Administration (FmHA) should collect a credit-report fee from loan applicants. If a $15 fee were to be collected, approximately * * * [$23.2 million] could be saved * * * over three years."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATION

FmHA procedures state that FmHA county supervisors are responsible for verifying information furnished by loan applicants and for recording and assembling additional information needed to properly evaluate the applicants' qualifications and credit needs. According to the PPSSCC, such additional information is often gathered from credit reports.

The PPSSCC stated that FmHA regulations prohibited charging an application fee. However, applicants for whom a loan was approved and a credit report was obtained were charged a $12 fee to cover the cost of the report regardless of the actual cost to FmHA. Unsuccessful applicants were not required to reimburse FmHA for any expenses, including the cost of credit reports. The PPSSCC said that to reduce the number of casual applications received by FmHA and to recover a greater portion of its expenses, FmHA should charge a nominal fee to applicants for whom a credit report is obtained.

In an October 1977 report (GAO/CED-77-134), GAO recommended that FmHA charge applicants for the cost of credit reports at the time of application.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

FmHA has taken action to collect credit report fees. In March 1983 FmHA published a notice of proposed rulemaking in the Federal Register to amend its Credit Reports (Individual) regulations. The final rule was expected to become effective on November 19, 1984. The amendment provides for collecting a credit report fee from the loan applicant before a credit report is ordered for all programs other than for the section 504 rural housing loan program. When a credit report is needed to complete the credit investigation of a section 504 loan applicant, the cost of the fee is included as part of the FmHA loan.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

According to FmHA, the fee to be charged loan applicants for the rest of fiscal year 1983 and for fiscal year 1984 was $20, the average cost of a credit report for that period. FmHA estimated that the charge would save about $1.7 million a year in outlays. The PPSSCC estimated $23 million in savings over 3 years. Because GAO has not done any recent audit work regarding FmHA's assessment or collection of credit report fees, it cannot assess the reasonableness of either the PPSSCC's or FmHA's savings estimates.

V. RELEVANT GAO REPORTS

GAO/CED-77-134	Collection of Credit Report Fees by the Farmers Home Administration (Oct. 7, 1977)
GAO/B-114873	Assessment of Fees for Processing Loan Applications Would Help Recover Program Costs (Jan. 23, 1970)

VI. GAO CONTACT

Brian Crowley 275-5138

INT 2, AG 46, USER 6, USER 7: PUBLIC RANGELANDS/GRAZING FEES

I. PPSSCC ISSUE AND SAVINGS

"Can the management of public rangelands administered by the Bureau of Land Management (BLM) and the Forest Service (FS) be more cost efficient and possibly increase revenues to the federal government?"

The PPSSCC estimated that increasing BLM and FS grazing fees to fair market value could increase revenues from $125.4 to $134.4 million over 3 years. Or, the government could save from $156.7 to $165.7 million over 3 years if it (1) transferred 50 percent of BLM's rangelands to private control, (2) increased grazing fees on the FS rangeland and the remaining BLM rangeland and (3) consolidated court-ordered environmental impact statements.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

In INT-2 the PPSSCC recommended that BLM reduce its net rangeland management costs (costs less grazing revenues) by (1) undertaking a study to determine which of the 143 million acres of rangeland used primarily for grazing should be transferred to private control through sale or long-term lease, (2) increasing grazing fees to fair market value for those rangelands not transferred to private control, and (3) consolidating the preparation of 71 environmental impact statements that BLM needed to prepare to comply with a court order. In AG-46, USER-6, and USER-7 the PPSSCC recommended that BLM and FS increase the grazing fees charged on their existing rangelands.

The study recommended by the PPSSCC would duplicate efforts BLM already has underway. Section 202 of the Federal Land Policy and Management Act of 1976, as amended, establishes a land use planning process that requires BLM to perform studies to determine (1) the proper allocation of the public lands between uses (e.g., coal leasing, oil and gas development, timber, recreation, wildlife preservation, watershed) and (2) which lands may be sold or otherwise disposed of. In an ongoing review, GAO has identified problems with BLM's land use planning process as it applies to identifying disposable public land. BLM recognizes that certain weaknesses exist and, according to BLM officials, the agency is taking steps to improve its land use planning instructions including considering the matters that GAO suggested. GAO believes that if the revised instructions adequately address the matters GAO suggested the existing land use planning process would identify those lands that should be disposed of. Therefore, the special study recommended by the PPSSCC would not be needed.

GAO's October 14, 1982, report Public Rangeland Improvement--A Slow, Costly Process in Need of Alternate Funding (GAO/RCED-83-23) pointed out that the rates charged for grazing on privately-owned land, located near BLM grazing land, were significantly higher than the rates charged by BLM. (FS uses the same formula to establish grazing fees as BLM.) The report presented 4 alternative sources for funding needed range improvements, including raising grazing fees. Therefore, GAO agrees with the PPSSCC that raising grazing fees is feasible.

A 1974 court order required BLM to perform 212 environmental impact statements (EISs). The PPSSCC recommended that BLM obtain the court's approval to combine certain of the 71 EISs that remained to be done. GAO has no basis for commenting on the validity of this recommendation.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

In commenting on the PPSSCC recommendation that a study be undertaken to identify that rangeland which should be transferred to private control, BLM took the position that it would be too costly to perform the recommended study and that the land use planning process required by the existing legislation serves the same purpose, i.e., identify those public lands that should be disposed of. Therefore, BLM does not plan to perform the recommended study. GAO agrees with BLM's position.

The Public Rangeland Improvement Act of 1978 established a trial formula to be used for setting the grazing fees charged by BLM and FS through 1985 and required BLM and FS to perform a study and report to the Congress on potential methods for setting grazing fees in 1986 and subsequent years. Therefore, legislation would be required to increase the grazing fees before 1986. BLM and FS are in the process of evaluating the fee formula and intend to issue a report to the Congress by April 1985. The report will present 10 alternative ways for establishing a fee formula to be used in 1986 and subsequent years.

The PPSSCC said that court permission would be required to consolidate environmental impact statements. GAO has not reviewed the original court order and has performed no reviews in this program area so it does not have a basis for commenting on whether or not court permission would be required or to what extent the statements could be consolidated. However, in commenting on the PPSSCC recommendations, BLM said that it has consolidated some of the environmental impact statements as recommended by the Commission.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

In estimating the savings in rangeland management costs, PPSSCC may not have given adequate consideration to the time and costs that would be involved in selling/leasing BLM lands. The PPSSCC estimate assumes 50 percent of the land can be transferred within the first 3 program years. However, this may not be feasible. Before the sales could be made, evaluations would need to be performed to determine which rangeland parcels should be sold and that their sales would comply with the legislative restrictions on sales of public lands and then the holders of grazing permits would have to be given a 2-year notice of intent to cancel their permits. Also, the PPSSCC did not consider the cost of the study in estimating the potential savings and BLM has said that the recommended study would be costly to perform.

The PPSSCC estimates of the increase in revenues that would result from increasing grazing fees appear reasonable. The Congressional Budget Office performed a study which concluded that if grazing rights were auctioned by sealed bid the average fees could more than double.

BLM says that some environment impact statements have been consolidated and some costs have been reduced but GAO has no basis for concluding whether the PPSSCC savings estimate is reasonable.

V. RELEVANT GAO REPORT

GAO/RCED-85-84 The Bureau of Land Management's Efforts To Identify Land For Disposal (Draft)

GAO/RCED-83-23 Public Rangeland Improvement--A Slow, Costly Process in Need of Alternate Funding (Oct. 14, 1982)

VI. GAO CONTACT

Michael Gryszkowiec 275-5514

AG 43: ADOPT LUMP-SUM TIMBER SALES PROCEDURES

I. PPSSCC ISSUE AND SAVINGS

The PPSSCC said that

"The Forest Service * * * should adopt lump-sum timber sales procedures. Revenues would increase by * * * $53 million over three years."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATION

According to the PPSSCC, the Forest Service's current method of selling timber on the basis of estimated volume and being paid only for the actual removals leads to great variability between expected receipts and actual revenues. The PPSSCC said that there is no allegation of fraud, or even a consistent bias, but the potential exists because of inadequate monitoring and inaccurate volume estimates. The PPSSCC concluded that the most reasonable solution would be adoption of a lump-sum sales system which would require purchasers to pay the total amount bid on a timber sale rather than paying a unit price on the volume of timber removed.

In a 1975 report (GAO/RED-75-396, 7/16/75), GAO took the position that the Forest Service, an agency of the U.S. Department of Agriculture (USDA), should use the lump-sum timber sales method for all forests, tree species, and timber conditions for which test sales have shown net benefits to be gained from its use and where Forest Service personnel have the capability to prepare these sales. The Forest Service is using lump-sum sales in its eastern regions and is testing the concept in some western areas with the view of expanding the use of lump-sum sales to those areas where net benefits to the government could be enhanced.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The Forest Service has the administrative authority to implement this recommendation. In its implementation status report dated October 3, 1984, USDA said that emphasis was continuing on increasing tree measurement sales in the West and that other methods of selling timber to reduce Forest Service volume measurement costs were being reviewed by a Productivity Improvement Team.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The Forest Service projects no revenue increases for the expanded use of lump-sum sales but has stated that there will eventually be savings from eliminating measurement costs. GAO has not done any recent audit work on lump-sum

timber sales and therefore cannot assess the reasonableness of either the PPSSCC's savings estimate or the Forest Service's comments.

V. RELEVANT GAO REPORT

GAO/RED-75-396 Forest Service Efforts to Change Timber Sale Payment Method (July 16, 1975)

VI. GAO CONTACT

Brian Crowley 275-5138

INT 4 AND USER 4: NATIONAL PARK SERVICE RECREATION FEES

I. PPSSCC ISSUE AND SAVINGS

"Should visitors to national parks pay a larger percentage of the operating costs through general entrance fees and/or charges for services provided?"

The PPSSCC estimated that revenues could be increased by $99 million, over 3 years, if some new charges were applied and existing ones adjusted to reflect the effects of inflation.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The National Park Service operates 334 areas. During 1983, it charged entrance fees at only 62 of them and collected about $8.6 million in entrance fees and $1.2 million from sales of Golden Eagle passports. It also collected $11.2 million in user and special permit fees. In 1983 the Congress appropriated $567.8 million to operate and maintain these areas and in 1984 this amount increased to $601 million.

The PPSSCC concluded that those who directly use and enjoy the Nation's parks should pay a larger share of the cost of operating and maintaining them. It *recommended* that the Congress adopt pending legislation (S.2758) that would have (1) unfrozen park entrance fees from their January 1979 level and allowed collecting entrance fees at additional park units and (2) lifted the $10 cap on the price of a Golden Eagle Passport. The PPSSCC also recommended that the Park Service expand and accelerate its current efforts to identify and implement cost-effective opportunities for increasing revenues from park-related activities not requiring specific congressional authorization, such as camping charges, guided tours, extending the hours of entrance fee collection, and better packaging and promotion of services.

GAO agrees that visitors to the parks should pay a larger percentage of park operating costs and has made recommendations similar to those made by the PPSSCC in reports issued in October 1980 and August 1982--see Part V.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

Section 402 of Public Law 96-87 has to be repealed to remove the freeze on entrance fees at National Park Service recreation facilities and Section 4 of the Land and Water Conservation Fund Act of 1965, as amended, needs to be amended to remove the $10 limit on the price of a Golden Eagle Passport. The Secretary of the Interior

submitted these legislative proposals to the Congress along with its fiscal years 1984 and 1985 budgets but they were not introduced in either session of the Congress.

GAO also agrees that there are opportunities to increase user fee revenues from park-related activities which would not require specific congressional authorization, such as increasing camping fees and extending the hours entrance fees are collected. The Park Service has taken action to increase revenues from such user charges and these were reflected in its fiscal year 1984 and 1985 budgets.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC saving estimate related to the repeal of the freeze on entrance fees and the amount charged for Golden Eagle Passports--$66 million over a 3-year period --was based on estimates contained in GAO's August 1982 report. Therefore, GAO believes the estimate is realistic.

GAO has no basis for concluding whether it would be realistic to increase user charge revenues from actions not precluded by existing legislation by as much as the PPSSCC estimated--$33 million over a 3-year period. GAO's August 1982 report concluded that extending fee collection hours at 14 Park Service parks would produce a net increase in revenues of $2.7 million annually. According to the PPSSCC, Department of the Interior budget officials concurred with the PPSSCC's estimate that the imposition of longer fee collection hours and other management policies could produce an estimated revenue increase of $10 million a year. However, the PPSSCC report states that approximately $3 million, or 30 percent of the increase, involved actions already taken by the Park Service prior to issuance of the PPSSCC report.

V. RELEVANT GAO REPORTS

GAO/CED-82-84	Increasing Entrance Fees--National Park Service (Aug. 4, 1982)
GAO/CED-80-115	Facilities in Many National Parks and Forests Do Not Meet Health and Safety Standards (Oct. 10, 1980)

VI. GAO CONTACT

Michael Gryszkowiec 275-5514

AG 45 AND USER 8: FIREWOOD FEES

I. PPSSCC ISSUE AND SAVINGS

"The Forest Service should charge for firewood that is currently given away."

The PPSSCC estimates that this would generate over $20 million annually and $63.6 to $66.2 million over 3 years.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

In response to the 1973 energy crisis, the Chief of the Forest Service decided to open up the forests for free firewood harvest. Forest Service officers were to take positive steps to make existing firewood available to all potential users, as long as other resource values are protected, and consistent with staffing and budget constraints. During the period 1972 to 1980, the amount of firewood removed from national forest lands increased from about 400,000 cords in 1972 to 4.5 million cords in 1980, an increase of about 1,165 percent. Of the 4.5 million cords, 92 percent of the firewood was catergorized free use. In some forests, the firewood program removal exceeded the annual programmed timber harvest. Forests near metropolitan areas also experienced particularly high levels of demand for firewood.

The increased demand for free firewood has caused a strain on ranger district resources because of the effort required to administer the program and to investigate violations. The firewood program has traditionally been a minor program being managed on most ranger districts as an adjunct to other Forest Service programs. However, this is no longer the case. In a March 1982 report entitled Illegal and Unauthorized Activities On Public Lands--A Problem With Serious Implications, GAO concluded that timber thefts from Forest Service land are a serious law enforcement problem resulting in monetary loss and environmental damage.

The PPSSCC recommended charging a minimum of $10 for a firewood permit and an additional nominal fee of at least $5 per cord of firewood. Recovering costs from identifiable users of government goods and services is a longstanding position endorsed by GAO. However, GAO believes the fee may not be the same at all forest locations and a free firewood policy should be considered at some locations where it is administratively determined to be advantageous to the government.

The PPSSCC also recommended a management information/accounting system. It also recommended that the

Forest Service review administrative cost data from those regions using bid/auction pricing systems and, if the costs of the bid/auction system for firewood are comparable to a nationwide fee system, the bid/auction system should be implemented. GAO has not done specific audit work directly related to existing fee collection and management information systems.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with PPSSCC's assessment that the fee program could be instituted as part of the official Forest Service policy nationwide.

Subsequent to GAO's 1982 report which discussed timber thefts but before the PPSSCC report, the Forest Service instituted a fee policy for firewood which was implemented for the 1983 firewood cutting season. The new policy included a minimum $10 charge for a firewood permit.

The Department of Agriculture rejected the PPSSCC recommendation that the Forest Service review administrative cost data for those regions using bid/auction pricing systems and, if the costs of the bid/auction system for firewood are comparable to a nationwide fee system, the bid/auction system should be implemented. The Forest Service stated that bid/auction systems only work in certain circumstances in certain locations and can not be applied nationwide.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO has no basis for assessing the reasonableness of the PPSSCC estimates of revenues from charges for firewood. These estimates are based on the analysis conducted by the Agriculture Task Force (using both Government data and private sector firewood market data). These revenues are to be offset by the additional cost of implementing management information and controls systems nationwide.

As mentioned above, the Forest Service started charging for firewood nationwide in 1983. The Department of Agriculture has estimated that it will recover about $34.0 million over a 3-year period.

V. RELEVANT GAO REPORT

GAO/CED-82-48 Illegal and Unauthorized Activities on Public Lands--A Problem With Serious Implications (Mar. 10, 1982)

VI. GAO CONTACT

Michael Gryszkowiec 275-5514

AG 44 AND USER 3: REVISE RECREATION FEES

I. PPSSCC ISSUE AND SAVINGS

The PPSSCC asked "Can the Forest Service * * * recover a larger share of the cost of providing recreation services through the National Forest System?" The PPSSCC estimated that combined additional revenues from initiating or increasing various recreation fees could range from $127.6 to $371.6 million over 3 years.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The U.S. Department of Agriculture's Forest Service provides a substantial amount of recreation to the public through camping sites, recreation residence permits, and ski resort land use agreements. The PPSSCC points out that the law allows some agencies to charge admission, recreation, and permit fees. According to the PPSSCC, no Forest Service sites charge admission fees, the current recreation fee system limits the areas for which user fees can be charged, and the bases on which fees for ski resort and recreation residence permits are established should be revised.

While GAO has not analyzed whether Forest Service fees should be revised, it believes that the overall issue of pricing goods, services, and privileges that the federal government provides to identifiable recipients has merit. The issue has been discussed in various GAO reports. In a 1980 report (GAO/PAD-80-25, 3/28/80), GAO pointed out that it was appropriate for the government to charge for goods, services, and privileges that benefit identifiable recipients. GAO believes that charging for such benefits is equitable since it assures that costs are borne by beneficiaries rather than taxpayers in general. Also, charging a fee allocates goods and services to beneficiaries who value them most highly (and perhaps to those best able to afford the goods and services).

GAO pointed out, however, that deviations from this general policy may sometimes be needed. Prices may have to be lowered to permit access by those with low incomes or to encourage consumption of some products. Also, prices may have to be adjusted when providing a good or service involves costs and benefits that affect third parties not directly involved in an exchange.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO believes that determining the feasibility and cost-effectiveness of initiating or raising recreation fees in the national forests requires the consideration of several

variables. Most can be quantified or determined to be clearly prohibitive of or favorable to collecting the fees. The key variables are the annual visitation level, the number of accesses to an area, the cost of capital improvements needed to collect entrance fees, the effect of entrance fees on visitation levels, property deed clauses prohibiting the collection of entrance fees, collection costs, and fee levels.

Legislative action will be needed to implement the PPSSCC's recommendations related to admission fees. According to Service officials, the Service was drafting legislative language that would authorize the Secretary of Agriculture to collect entrance fees at the national forests and has proposed legislative changes that would expand its authority to collect recreation fees for the use of specialized outdoor recreation sites, facilities, and services. Both the Senate and the House have cautioned the Forest Service about raising the fees for recreation residence permits until the Service can devise an equitable system to set the new rates.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO's audit work has not included an examination into the PPSSCC's estimated potential increase in revenues from charging or revising admission, recreation, and permit fees and therefore GAO has no basis to judge the validity of the overall estimate. However, GAO notes that the PPSSCC's reports did not indicate that it had analyzed the possible negative effect that charging an admission fee would have on a traditionally free recreational experience and the resultant effect on the revenue estimates.

V. RELEVANT GAO REPORTS

Letter report	Problems With the Forest Service's Graduated Rate Fee System (Aug. 18, 1982)
GAO/CED-82-84	Increasing Entrance Fees--National Park Service (Aug. 4, 1982)
GAO/CED-81-49	Department of Agriculture Should Have More Authority to Assess User Charges (Apr. 16, 1981)
GAO/CED-80-115	Facilities in Many National Parks and Forests Do Not Meet Health and Safety Standards (Oct. 10, 1980)
GAO/PAD-80-25	The Congress Should Consider Exploring Opportunities to Expand and Improve the Application of User Charges by Federal Agencies (Mar. 28, 1980)

VI. GAO CONTACT

Brian Crowley 275-5138

BUS-FCC 3 AND USER 14: FEDERAL
COMMUNICATIONS COMMISSION USER CHARGES

I. PPSSCC ISSUE AND SAVINGS

"Should FCC collect fees and user charges for the services it provides?" (Essentially the same wording is used in both BUS-FCC-3 and USER 14.)

The PPSSCC estimated savings of $140.3 million in BUS-FCC-3 and $132.4 million in USER-14 over three years. This estimate is based on FCC's establishing a user charge system.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The FCC regulates interstate and foreign communications, carried by radio, television, wire and cable. Included among its regulatory activities are such things as licensing stations, approving station transfers, testing communications equipment, and assigning station call signs, which may be viewed as benefiting particular parties as well as the public in general. For example, in fiscal year 1984, FCC spent about $16 million on authorization of service and facilities (i.e., licensing) activities.

GAO agrees with the PPSSCC recommendation that the FCC should establish a user fee schedule which would recover from private beneficiaries the full cost incurred by the FCC in providing them a product, service, or privilege. GAO has both formally recommended such action to the FCC in a 1977 report on FCC user fees and supported it in congressional testimony. GAO's support for the establishment of a FCC fee schedule is cited by the PPSSCC.

GAO also agrees that fees should be based on the costs which FCC actually incurs in carrying out activities for which fees would be assessed. GAO believes, as does the PPSSCC, that FCC should adopt an internal cost accounting system which would be used to support a user fee schedule and which could be used to adjust fees as the cost of FCC activities change over time.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The FCC has authority to establish a user fee schedule through administrative action. In addition, on several occasions bills have been introduced in the Congress to establish a FCC fee schedule through legislation. The PPSSCC calls for FCC to support legislative enactment of a fee schedule, but to develop such a schedule administratively if the Congress does not establish such a schedule through legislation. This is consistent with GAO's position.

FCC has not collected fees since 1976. At that time the U.S. Court of Appeals for the District of Columbia Circuit overturned FCC's then-existing fee schedule and ordered FCC to establish a proper justification for its fee schedule and to recalculate fees accordingly. Since then the FCC has supported the establishment of a legislatively-mandated fee schedule, but has taken no action to reestablish a fee schedule administratively because it believes it would be difficult to establish a fee schedule which would withstand a legal challenge. While legislation to establish a FCC fee schedule has been introduced on various occasions since 1976, such legislation has yet to be enacted.

GAO believes, as does the PPSSCC, that FCC should proceed to establish a user fee schedule administratively, rather than continuing to wait for the enactment of a legislative fee schedule. By establishing a cost accounting system upon which fees would be based, GAO believes FCC will be able to comply with requirements set forth by the Court of Appeals for FCC recalculation of a fee schedule. FCC's Associate Managing Director for Operations told GAO in September 1984 that FCC may pursue the issue of user fees in FY 1985 if a legislative fee schedule is not enacted.

Should the Congress decide to enact a FCC fee schedule through legislation, GAO agrees with the PPSSCC that such fees should be cost based and that FCC should be empowered to adjust the fees if its costs change significantly.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC estimates of savings are based on assumption that FCC could recover one-half of its annual budget through user fees and that it would cost about $2 million to implement a cost accounting system and fee schedule. This assumption is predicated on a legislative proposal which would have established fees at that level. The difference between the savings estimates in the two PPSSCC analyses ($140.3 million in BUS-FCC-3 and $132.4 million in USER-14) are due to the fact that different estimates of FCC's budget level were used.

GAO has not carried out the analysis needed to determine what portion of FCC's budget could be recovered through user fees. In September 1984, FCC's Associate Managing Director for Operations told GAO that he believes $20 to $30 million per year could be collected through a FCC fee schedule. (FCC's FY 1985 budget request was $92.6 million.)

V. RELEVANT GAO REPORTS

B-203297	Comments on H.R. 3239 and H.R. 3240 (June 9, 1981)
GAO/CED-77-70	Establishing a Proper Fee Schedule Under the Independent Offices Appropriation Act, 1952 (May 6, 1977)
Testimony	Effects of Changes in the Telecommunications Industry on FCC's Operations, by J. Dexter Peach, Resources, Community and Economic Development Division, before the Government Information, Justice, and Agriculture Subcommittee, House Committee on Government Operations (Sept. 27, 1983)
Testimony	S.821, A Bill to Provide for Authorization of Appropriations for the Federal Communications Commission, by Henry Eschwege, Community and Economic Development Division, before the Senate Committee on Commerce, Science and Transportation (May 1, 1981)

VI. GAO CONTACT

Herbert McLure 275-4905

USER 16: COAST GUARD USER FEES

I. PPSSCC ISSUE AND SAVINGS

"Can the Coast Guard recover all the costs of its services provided to identifiable beneficiaries through a system of user fees?

"New three-year revenues of $418.2 million are possible by collecting the costs of Coast Guard services."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO believes that the PPSSCC recommendations to institute user fees for certain program services and to reassess its activities to determine those that are more suitable for accomplishment by local governments or the private sector has merit and that further examination is warranted.

GAO has stated that the Coast Guard performs services for which specific user groups could be charged and that such an option provides an opportunity to recover Coast Guard costs for service. In an April 1980 report, GAO recommended that the Coast Guard consider charging for selected services performed primarily for the benefit of specific user groups.

GAO has found that certain Coast Guard programs such as the vessel traffic safety systems provide very localized benefits more appropriately funded by the locality rather than the general taxpayer. Also, some programs may be more efficiently funded and carried out at the local level because local officials are more attuned to local conditions. Also, contracting with the private sector for selected activities of Coast Guard programs which are appropriate for private performance and are more economically performed should be explored.

PPSSCC recommendations under PRIV-08, and TRANS-19-1 are related to USER-16 recommendations.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

For the implementation of user charges, legislative and executive action would be necessary.

The PPSSCC noted that one of the major difficulties in implementing a user fee program is the reluctance of the agency to "become a business." Also, there are costs associated with this recommendation, and the PPSSCC sees some decline in demand if fees are collected for services which are now free to users.

GAO also recognizes certain disadvantages and difficulties in implementing a user charge system:

--Safety may be jeopardized due to a hesitance to contact the Coast Guard if mariners know they will be charged for service performed.

--New costs will be incurred to implement and administer a user charge system.

--Identifying some users may be difficult and it may be difficult to establish equitable charges for some services.

The PPSSCC believes that establishment of a user charge product manager function within the Coast Guard would relieve the operation staff from day-to-day difficulties of collecting user fees. The PPSSCC found that the Coast Guard was reluctant to undertake the additional activities or responsibilities associated with implementing a user fee program. GAO believes the function will be needed and could be established as an in-house function separate from traditional Coast Guard activities.

GAO believes there would be no difficulty conducting the recommended PPSSCC assessment to determine those Coast Guard activities that are more suitable for state or local governments or the private sector to perform. By conducting demonstration projects and other investigations, the Coast Guard could determine the capability and potential effectiveness of state and local government or private enterprise performance of certain activities.

It should also be kept in mind that state and local government resources and their technical capabilities available to support this expanded role are limited. Efforts to delegate Coast Guard services to other levels of government must, therefore, be balanced by a recognition that state and local government finances and expertise are limited. Also, continued availability, capability and efficiency of contractors would also have to be periodically assessed to assure continued acceptable performance.

A Coast Guard official informed us that the agency has established a task force responsible for studying a number of programs in order to determine what can or cannot be contracted out or turned over to the private sector or state and local governments.

However, as of December 1, 1984, the Department had not officially responded on the status of these recommendations as requested by OMB and the White House.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC estimated 3 year revenues of $418.2 million by collecting the costs of Coast Guard services. The PPSSCC recommended a 5-year phase-in schedule to respond to concerns of users about the impact of any new fee and to

allow the Coast Guard time to explore other options in establishing and collecting fees. The PPSSCC stated the user fee schedules should be designed to recover 100 percent of the direct and indirect costs of the services provided to identifiable beneficiaries. The PPSSCC felt that new administrative and program costs to implement and collect fees should also be included in the user fee schedules.

Because GAO does not have enough information to assess the validity of the projected revenue and because we have not developed either cost or savings estimates related to these recommendations, GAO has no basis for an opinion. The wide divergence between the $418.2 million identified here and the $1,573.7 million identified in TRANS-19 results from different assumptions about what costs should be recovered and the time period covered.

V. RELEVANT GAO REPORTS

GAO/CED-80-76 The Coast Guard--Limited Resources Curtail Ability to Meet Responsibilities (Apr. 3, 1980)

GAO/PAD-80-75 The Congress Should Consider Exploring Opportunities to Expand and Improve the Application of User Charges by Federal Agencies (Mar. 25, 1980)

Audit Report to the Congress of the United States (Oct. 31, 1955)

VI. GAO CONTACT

Oliver Krueger 275-6111

TRANS 19: SHIFTING COSTS OF COAST GUARD SERVICES

I. PPSSCC ISSUE AND SAVINGS

"Are there Coast Guard services that can be supported by user fees, privatized, or delegated to other levels of government, thereby permitting either direct savings through cost recovery or delegation of functions, or cost avoidances obtainable through redeployment of existing resources?

"The PPSSCC recommendation to shift the cost of certain Coast Guard services to marine users who benefit from them will result in new revenue and savings of $1,573.7 million over 3 years."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO believes that the PPSSCC's recommendation to institute user fees for program services has merit. The recommendations to test the concepts of transferring, to the private sector and to other levels of government, some aspects of search and rescue, short range aids to navigation, commercial vessel safety programs, and vessel traffic safety systems also have merit and warrant examination.

As far back as 1955 GAO recommended that the Coast Guard consider charging for certain services performed primarily for the benefit of specific individuals or private entities. GAO repeated this recommendation in an April 1980 report in addition to recommending that the Coast Guard transfer certain functions. GAO believes that transferring certain aspects of Coast Guard programs to the private sector could help free-up scarce resources to handle other Coast Guard mission responsibilities, such as enforcement of laws and treaties, promote more efficient service delivery, as well as lower cost.

PPSSCC recommendations under PRIV-08 and USER-16 are related to TRANS-19 recommendations.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

With respect to user fees, legislation would be necessary authorizing the Coast Guard to recover costs for services provided and deposit receipts into an earmarked revolving fund for the Coast Guard's use. Coast Guard's appropriations could then be reduced by the amount earmarked in the revolving fund, thus reducing the Coast Guard budget.

The Coast Guard, under existing authority, however, can enter into an agreement or contract with a state or local government or with the private sector for the performance of a particular function on behalf of the Coast Guard.

Although GAO believes that charging for certain Coast Guard services and transferring certain functions to the private sector or other levels of government would free up scarce resources, promote more efficient service delivery and lower costs; GAO recognizes as stated in its April 1980 report, certain disadvantages or difficulties in implementing these recommendations. Charging user fees can cause difficulty in establishing equitable charges for some services and in collecting fees. Also mariners requiring assistance at sea may hesitate to contact the Coast Guard if they know they are to be charged for services performed. As a result, mariner safety may be jeopardized.

GAO also stated in the April 1980 report that the feasibility of transferring certain Coast Guard functions to the private sector will be partly determined by the Coast Guard's assessment of the practicality of the role of the commercial sector in the subject area and by the availability of interested and qualified commercial sector organizations.

GAO believes that by conducting demonstration projects and other investigations the Coast Guard could determine how effective state and local government would be if they took over certain existing functions such as the Vessel Traffic Systems.

In response to the PPSSCC recommendations, the Transportation Department stated that it has in the past proposed that user fees be charged to commercial users of Coast Guard's services which have not been accepted by the Congress. Regarding the transfer of certain Coast Guard functions, the Coast Guard has developed agreements with third parties for vessel inspection services and will continue to encourage private sector assumption of aids to navigation maintenance, major port vessel traffic control, and independent ice breaking duties.

V. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC estimated that the Coast Guard could reach a 3-year savings of $1,573.7 million if the agency instituted a system of user fees for certain program services and transferred to private industry and other levels of government some aspects of search and rescue, short range aids to navigation, commercial vessel safety programs, and vessel traffic safety systems. Of the $1,573.7 million, 1,554.8 is attributed to user fee savings in nine Coast Guard program areas that the PPSSCC considered to benefit discrete marine users. The $1,554.8 million included estimated administrative costs of 2 percent of collections.

The remaining $18.9 million is based on savings estimates for delegation of Vessel Traffic Safety System

services (VTS). The PPSSCC stated it would be difficult to calculate the savings gained from transferring functions to private industry and other levels of government before recommended cost/benefit studies were accomplished. Therefore, VTS was chosen as an example of potential savings if transfers were achieved.

Although GAO agrees that charging user fees and transferring certain Coast Guard functions could result in considerable savings, GAO does not have enough information to determine if the PPSSCC figures are valid. In addition, GAO has no opinion because we have not developed either costs or savings estimates related to this recommendation.

V. RELEVANT GAO REPORTS

GAO/CED-80-76 The Coast Guard--Limited Resources Curtail Ability to Meet Responsibilities (Apr. 3, 1980)

GAO/PAD-80-25 The Congress Should Consider Exploring Opportunities to Expand and Improve the Application of User Charges by Federal Agencies (Mar. 25, 1980)

Audit Report to the Congress of the United States (Oct. 31, 1955)

VI. GAO CONTACT

Oliver Krueger 275-6111

TRANS 17: METROPOLITAN WASHINGTON AIRPORTS

I. PPSSCC ISSUE AND SAVINGS

"Should Metropolitan Washington Airports (MWA) attain a profit level comparable to other major metropolitan airports?"

"Our recommendation to increase MWA user fees comparable to those of other major metropolitan airports would produce new revenues of $57.6 million over 3 years."

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

According to the PPSSCC, the marginal profit at the Washington Dulles and National Airports results from "the public approach of break-even [as opposed] to the profit orientation of other major airports." While MWA's fees are designed to produce a 9.9 percent profit margin, other major metropolitan airports not owned and operated by the federal government have pricing policies that include a profit margin of from 7.7 percent to 71.5 percent, with an average of about 40 percent.

FAA stated that the rate structure and concession arrangements at the MWA are established to assure recovery of operating costs, interest expenses, and "an appropriate return of the government's investment." Fees collected from airport users are deposited as miscellenous receipts to the general fund of the Treasury. FAA estimates that for fiscal year 1985 a net profit of $9.2 million will be realized.

GAO has no position on the overall merits of the PPSSCC recommendation since GAO has not evaluated whether 40 percent represents an appropriate return on the government's investment.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

GAO agrees with the PPSSCC that implementation of the recommendation to establish revised pricing for MWA could be accomplished by the FAA Administrator, if he finds that the average profit margin of about 40 percent represents "an appropriate return of the government's investment." If the Administrator makes such a determination, he could, as PPSSCC recommends, increase revenue and improve the operating margin by increasing user fees at both airports to a level comparable with the average of other major airports. The PPSSCC stated that the additional revenue could be attained by raising landing fees and increasing the price for airport rental space.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

PPSSCC based its 3-year savings estimate of 57.6 million on a 40 percent profit margin. This 40 percent is based on the profit margin of five other major airports with the number of aircraft operations closely approximating MWA operations. These airports produced an average profit margin of 42.8 percent. The PPSSCC stated that by changing the fee structure so that operating margins for MWA would approximate 40 percent requires a needed increase of revenue of about $17.4 million in year 1, $19.1 million in year 2 and $21.1 million in year 3 for a total of $57.6 million over 3 years. The PPSSCC showed that raising landing fees at National could account for $16.6 million and raising the rental fees for space could account for $0.8 million in year 1 alone totalling the $17.4 million.

FAA had waived landing fees at Dulles airport in 1981 and 1982. In 1983, FAA began imposing landing fees at Dulles, but it continued to provide relief from fees for use of the mobil lounges. FAA stated that it believes the fee reductions at Dulles has contributed to the very strong growth rate at Dulles.

In the fiscal year 1985 budget hearings FAA stated that for the last 5 years, MWA has averaged a profit of about $6.5 million a year, which it feels is the right level. Therefore, FAA has targeted a profit level of $6.6 million.

V. RELEVANT GAO REPORT

None.

VI. GAO CONTACT

Oliver Krueger 275-6111

I. PPSSCC ISSUE AND SAVINGS

"Should Executive agencies charge user fees to recover a greater portion of their publication costs?" The PPSSCC stated that the establishment of user fees for publications would result in a 3-year cost savings of $264.8 million.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO generally agrees with the underlying objective of the issue that prices charged for government publications sold to the public should accurately reflect the government's direct and indirect publication costs. In a recent report on the Government Printing Office's (GPO's) General Sales Program,[1] GAO recommended that the Public Printer ensure that (1) costs incurred by the program are carefully determined and accurately reflected in the GPO pricing formula, (2) estimates are periodically compared to actual costs, and (3) price increases are adequately supported.

The PPSSCC recommended that the following actions be taken on user fees:

(1) Clear responsibilities be established for marketing/sales functions.

(2) Office of Personnel Management revise job requirements for professional marketing functions.

(3) Office of Management and Budget (OMB) develop model accounting procedures.

(4) Agencies be assigned responsibility for setting publications user fees.

(5) A long-range plan be developed for modifying the government printing system.

GAO is not in a position to agree or disagree with the PPSSCC's specific recommendation that agencies should have the authority to set and charge user fees for their publications sold to the public. GAO does not know whether the PPSSCC's proposed system would result in the recovery of a greater portion of the government's publication costs.

GAO also has reservations about the recommendation calling for OMB to develop model accounting procedures to

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[1]Under this program, GPO sells government documents to the public through the mail, bookstores, and other outlets.

track and account for unreported costs. GAO's concern is that a model accounting system may not be appropriate for all agencies. The need for such accounting procedures depends on the significance of publication costs to the agency's mission and the cost to design and implement the accounting procedures. GAO has no basis for opinion on the remaining recommendations (numbers 1, 2, and 5) made under this issue. However, GAO does note that the Joint Committee on Printing has passed a resolution to study the modification of the government printing system, which is consonant with the PPSSCC's recommendation on modifying the government printing system.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC recognized that, even though executive agencies have general authority to impose fees for certain goods or services under the User-Charge Statute (31 U.S.C. 9701), implementation of this recommendation would likely require specific legislation or at least blanket waivers from the Joint Committee on Printing (JCP). This is because JCP has long interpreted 44 U.S.C. 1701-1722 as vesting exclusive authority to sell government publications in GPO. Several of these provisions clearly indicate that the Congress intended executive agencies to have a very limited role with regard to the sale of government publications, let alone their pricing. We agree with the PPSSCC as to how this recommendation should be implemented.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The major premise of the PPSSCC cost savings estimate appears to be valid since user fees could offset costs. However, GAO has not analyzed the PPSSCC estimate in detail and therefore cannot assess its specific merits.

V. RELEVANT GAO REPORTS

GAO/AFMD-84-20	The Government Printing Office Can More Effectively Manage Its General Sales Program (Nov. 16, 1983)
GAO/IMTEC-84-17	Status of the Statistical Community After Sustaining Budget Reductions (July 18, 1984)
GAO/GGD-83-61	Cost Recovery Practices Inconsistent with Government Policy (July 27, 1983)
GAO/CED-81-49	Department of Agriculture Should Have More Authority to Assess User Charges (Apr. 16, 1981)

VI. GAO CONTACT

Thomas Giammo 275-4659

I. PPSSCC ISSUE AND REVENUE

Can Customs apply a system of additional user fees for those services rendered to identifiable beneficiaries for which no fee is currently being charged to recoup all direct and indirect costs of providing those services?

The PPSSCC estimated that $109.8 million in additional fees can be recovered the first year if new legislative authority is passed, or $6 million under the existing authority. The $6 million is part of the $109.8 million proposal. Second-year revenues would be $120.8 million and third-year revenues $132.9 million. The 3-year recovery would be $363.5 million.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The PPSSCC recommendations propose that Customs implement its proposed user fees governing commercial aircraft entering the country and support legislation that will impose new user fees or increase existing user fees to cover drawback entries--refund of duties, warehouse entries, warehouse withdrawals, in-bond fees, foreign trade zone fees, brokers licenses, commercial processing for trucks and trains, clearance of yachts and pleasure boats, and general aviation processing. Customs' immigration, agriculture, and health formalities--involving the entry of international travelers, imported products, vessels, trucks, aircraft, and trains--are not voluntary. However, the PPSSCC and Customs believe that all of the specific inspection services--the formalities noted above--are for the primary benefit of the user. Although additional users fees could be assessed above the current level if special services are provided, GAO does not believe there is merit in assessing users fees for those formalities that are not voluntary because these formalities protect the nation as a whole.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The proposed fees governing commercial aircraft entering the country were withdrawn by Customs because of congressional and public complaints. For the other user fee proposals, Customs has recommended that Treasury pursue legislative approval. Treasury has taken no legislative action. GAO agrees with the PPSSCC that legislative authority is needed.

IV. GAO ANALYSIS OF REVENUE ESTIMATE

GAO has no basis for opinion on the PPSSCC estimated increase in revenues for these recommendations. PPSSCC

estimates are based on Customs user fee proposals which are too general for estimating potential revenue. In addition, GAO does not support those users fees associated with Customs formalities that are not voluntary.

V. RELEVANT GAO REPORTS

None

VI. GAO CONTACT

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BUS-CFTC 2: USER FEES

I. PPSSCC ISSUE AND SAVINGS

Should the Commodity Futures Trading Commission (CFTC) collect user, or transactions, fees for futures trading?

The PPSSCC claimed a 3-year addition to revenues of $37.7 million if the CFTC were to collect these fees.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

The CFTC is the federal agency charged with overseeing the self-regulation of the futures exchanges. The CFTC collects user fees for certain services such as filing reparations complaints, registering with the CFTC, and requesting CFTC records, to name a few. In fiscal year 1983, the CFTC also imposed new fees upon commodity exchanges when they apply for new futures contracts. The CFTC expected these fees to return about $3 million in fiscal year 1984. The PPSSCC recommended that the CFTC, in addition to imposing new fees, propose legislation to impose specific kinds of user fees, including a charge on futures transactions to be paid by traders, and that it improve its cost-accounting system to support those changes.

GAO supports the development of reliable cost accounting systems. GAO has also generally supported user fees: it has, for example, recommended the periodic review of one kind of user charge--registration fees--now imposed by the CFTC, to assure that those fees reflect the actual cost of registration. However, GAO cannot take a position on the particular fees the PPSSCC recommended without further study.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The PPSSCC stated that new legislation is required to implement the user fee charges it recommends, and GAO agrees. Congress specifically prohibited the imposition of such fees. This type of fee was vigorously opposed by the futures industry.

The CFTC agreed that the issue of trading fees is politically sensitive but said it might be revisited as part of the fiscal year 1986 reauthorization. In the meantime, the CFTC pointed out that it is generating about $3 million a year in income from the service fees it has levied. This

figure will fall to about $2 million as more of the services are taken over by the newly established National Futures Association, an industry self-regulatory organization.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

GAO could not analyze the savings estimate without a lengthy study of CFTC operations costs. The PPSSCC states that it based its estimate of revenue enhancements on a "sampling study of direct and indirect activities which support users." The PPSSCC does not give any information about its sampling methodology or about the activities thought to support users. Such activities and their costs are not immediately obvious from the CFTC Budget Estimate for fiscal year 1985, which GAO reviewed. CFTC staff did not dispute the PPSSCC savings estimate, essentially saying that one could make any estimate and establish fees to achieve it.

V. RELEVANT GAO REPORTS

GAO/CED-82-100	Commodity Futures Regulation--Current Status and Unresolved Problems (July 15, 1982)
GAO/CED-78-110	Regulation of the Commodity Futures Markets--What Needs to Be Done (May 17, 1978)
GAO/CED-77-70	Establishing a Proper Fee Schedule Under the Independent Offices Appropriation Act, 1952 (May 6, 1977)

VI. GAO CONTACT

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USER 2: CORPS OF ENGINEERS RECREATION FEES

I. PPSSCC ISSUE AND SAVINGS

"Can the Corps of Engineers (Corps) recover more of its cost of providing recreation services at its water resource projects?"

The PPSSCC estimated that, over a 3-year period, the Corps could recover $92.7 million in additional gross receipts. Deducting collection costs, estimated at $33.1 million, and a one-time implementation cost, estimated at $3.0 million, the PPSSCC estimated that the additional net revenues for the 3 years would be $56.6 million.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATION

The Corps administers the second largest system of recreation, in terms of total visitation, of the seven federal agencies involved in recreation management --approximately 1.6 billion visitor hours in 1983. According to the PPSSCC, within 453 water projects there are over 4,500 recreation areas of which about 2,400 are managed by the Corps. Existing legislation prohibits the Corps from charging fees for most day-use facilities or charging entrance/admission fees to any of its recreation areas. It is also required to provide a free primitive campground at all areas where camping is permitted--camping fees are the only recreation fees the Corps is now collecting.

The PPSSCC recomended that the legislation be amended to eliminate (1) the existing prohibitions on charging entrance and day-use fees and (2) the requirement for providing primitive camp sites free of charge. GAO has not reviewed the Corps' use of recreational user charges but agrees with the concept that the users of federal recreation areas should pay for the use of these facilities. For example, in GAO's March 28, 1980, report The Congress Should Consider Exploring Opportunities To Expand and Improve the Application of User Charges by Federal Agencies (GAO/PAD-80-25), GAO stated:

> "Federal agencies provide goods, services, and privileges that benefit identifiable recipients. Charging for these benefits is equitable since it assures that costs are borne by beneficiaries, rather than taxpayers in general . . ."

Further in an August 4, 1982 report Increasing Entrance Fees-National Park Service (GAO/CED-82-84) GAO concluded that visitors to national parks should pay a larger portion of the costs to operate and maintain park facilities because they directly benefit from visiting the parks. GAO, therefore, recommended that the Congress lift

the ban on increasing existing and initiating new park entrance fees so that the National Park Service could collect an additional $18 million annually.

On the other hand, some of the arguments against user charges include (1) user charges may be viewed as inequitable since individuals with lower incomes may be denied equal access to the goods or services involved, (2) some goods and services, while benefiting identifiable recipients, are considered desirable from the standpoint of society as a whole, and (3) the administrative costs of charging for some goods and services may be prohibitive.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

Legislative restrictions need to be removed for the Corps to charge entrance and day-use fees and GAO concurs with the PPSSCC recommendation to repeal these legislative restrictions. The Corps submitted the recommended legislative proposal and it was introduced in the Senate in April 1983 (S.987) but it was not acted upon by the Congress. The Corps has plans, according to one official, to submit a similar legislative proposal in 1985.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC estimate of increased revenues is based on numerous assumptions (e.g., number of visitors, number of annual passes that would be sold, etc.) and GAO does not have the information necessary to determine whether these assumptions are realistic. However, an internal Corps study estimated that net revenues would increase $51.0 million over 3 years, or $5.6 million less than the PPSSCC estimate.

V. RELEVANT GAO REPORTS

GAO/CED-82-84 Increasing Entrance Fees--National Park Service (Aug. 4, 1982)

GAO/PAD-80-25 The Congress Should Consider Exploring Opportunities to Expand and Improve the Application of User Charges by Federal Agencies (Mar. 28, 1980)

VI. GAO CONTACT

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USER 15: FEDERAL ENERGY REGULATORY COMMISSION FEES FOR REGULATORY SERVICES

I. PPSSCC ISSUE AND SAVINGS

"Can the Federal Energy Regulatory Commission (FERC) recover the cost of regulatory services provided to identifiable users?"

The PPSSCC estimated that by expanding its user fee program to charge fees for all services identified as benefiting identifiable users, FERC could generate additional receipts of $23.2 million in the first year, $25.5 million in the second year, and $28.1 million in the third year.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO agrees that FERC should recover the cost of regulatory services provided to identifiable users. These services include activities such as processing hydroelectric license applications and reviewing electric utilities proposed rate increases. The PPSSCC recommended that FERC continue its efforts to increase existing fees, expand the user fees to additional areas, and obtain statutory authority for assessing its customers annual charges to recover FERC's costs of operating its oil, natural gas, and electric power offices. The PPSSCC also recommended that FERC improve the information used in the management of the user fee program. All of these recommendations are generally consistent with GAO's report on this issue (GAO/RCED-83-2, Feb. 9, 1983) in which GAO made several recommendations aimed at strengthening FERC's methods and systems for cost estimating and allocation.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

Prior to the PPSSCC's study, FERC had requested statutory authority to assess its customers annual charges to recover its costs of operating its oil, natural gas, and electric power offices. The Congress has not yet acted on this legislative proposal. FERC has also issued four final rulemakings, has two additional proposed rulemakings in process, and plans to issue two other proposed rulemakings, aimed at increasing its user fees.

FERC has also taken action to improve its user fee program by specifying which costs are to be recovered, improving the accuracy of its cost data, and determining the information needs of the user fee program.

V. GAO ANALYSIS OF SAVINGS ESTIMATE

For fiscal year 1982 FERC estimated that its collections would significantly increase from about $35 million to about $58 million annually if it expanded its user fee program. The PPSSCC's estimate of additional receipts of $23.2 million in the first year is very close to FERC's estimate. GAO did not analyze the amount of potential revenues from the expanded user fee program and therefore has no basis for commenting on the validity of either estimate.

V. RELEVANT GAO REPORT

GAO/RCED-83-2 Federal Energy Regulatory Commission Makes Progress Toward Expanding User Fee Program (Feb. 9, 1983)

VI. GAO CONTACT

John Sprague 275-1441

USER 21: INTERSTATE AND DEFENSE HIGHWAY SYSTEM

I. PPSSCC ISSUE AND SAVINGS

The PPSSCC asks whether additional user charges can be collected to maintain, rehabilitate, replace, and generally improve the interstate and defense highway system, associated facilities, and other strategic components of the nation's highway system. The recent passage of the 5-cents-per-gallon increase in the gasoline tax and the increase in other highway-related taxes will generate approximately $5 billion in new revenue. While the new taxes meet the major need for additional highway revenues there is still an issue of the price adjustment mechanism that has not been adequate to maintain taxes at the appropriate level.

If such a mechanism could be implemented, the PPSSCC estimates approximately $600 million would be generated in Year 1, $660 million in Year 2, and $726 million in Year 3 for a 3-year revenue generation of $1,986 million.

II. GAO ANALYSIS OF ISSUE AND ASSOCIATED RECOMMENDATIONS

GAO believes that the PPSSCC's proposal to have a price adjustment mechanism has merit. The PPSSCC drew on GAO's report Deteriorating Highways and Lagging Revenues: A Need to Reassess the Federal Highway Program, GAO/CED-81-42, March 5, 1981. In that report, GAO noted that revenues have not kept pace with rapidly rising highway costs and recommended that the Congress address revising the federal motor fuel tax and other highway revenue sources to be more responsive to highway needs and the inflationary trends in highway costs. GAO reported that during 1970-79, revenues increased only 60 percent as gasoline consumption grew while construction costs rose 145 percent.

III. GAO ASSESSMENT OF IMPLEMENTATION AUTHORITY, FEASIBILITY, AND STATUS

The Federal Highway Administration publishes an index for federal-aid highway construction in its "Price Trends for Federal-Aid Highway Construction." It contains a quarterly and annual index as well as the average contract price for the six construction components comprising the index. Therefore, a mechanism already exists within Federal Highway for a system that would provide sufficient data to maintain a current pricing mechanism for a user charge. It should also be noted that a number of states have considered and some have adopted a variable motor fuel tax, which is tied to fuel prices that rise with inflation. Variable motor fuel taxes may be used on a fixed percent of the sale price of fuel, like a sales tax, or may be indexed to fuel

prices. In either case, sufficient data is already available to maintain a current pricing mechanism if the decision was made to implement such a mechanism.

The second and more difficult part of the PPSSCC issue will be reaching agreement on a legislative mechanism for fuel tax adjustments, given the recent fuel tax increase of 5-cents a gallon. At least one congressional proposal has been made for changing the motor fuel tax from a fixed cents-per-gallon tax to a percent tax on the wholesale fuel price.

As of September 24, 1984, the Department was in the process of establishing with OMB and the White House a status of the recommendation.

IV. GAO ANALYSIS OF SAVINGS ESTIMATE

The PPSSCC's revenue generation estimate is apparently based on applying an estimated 5-percent annual inflationary increase to estimated total revenues in excess of $12 billion. GAO has two observations about the estimate. One is that the PPSSCC report contains no specific discussion of the basis for its annual inflation rate adjustment, although it contends that it is conservatively estimated. The second is that an adjustable tax could well be linked to either a highway construction index or the gasoline price. The highway construction index declined almost 10 percent from 1980 to 1982 and has been relatively stable over the first three quarters of 1983. Fuel prices have also declined from their 1980 level. Had a variable tax based either on highway construction costs or fuel prices been in effect now, revenues could have actually declined since 1980.

While highway construction costs and fuel prices may increase in the future, GAO believes that it is not possible to estimate with any precision potential revenue generation.

V. RELEVANT GAO REPORTS

GAO/CED-81-42	Deteriorating Highways and Lagging Revenues: A Need to Reassess the Federal Highway Program (Mar. 5, 1981)
Testimony	Highway Conditions and Funding by Henry Eschwege, Director, Community and Economic Development Division, before the Subcommittee on Surface Transportation, Committee on Public Works and Transportation, House of Representatives (July 8, 1981)

VI. GAO CONTACT

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a/This report contains no analysis of this issue because GAO had insufficient information to offer an opinion on the issue's merits. A complete listing of issues where GAO had no basis to comment is included as appendix II.

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U.S. GOVERNMENT PRINTING OFFICE: 1985-461-287/35314